EXHIBIT E

CERTIFIED COMMONWEALTH FISCAL PLAN

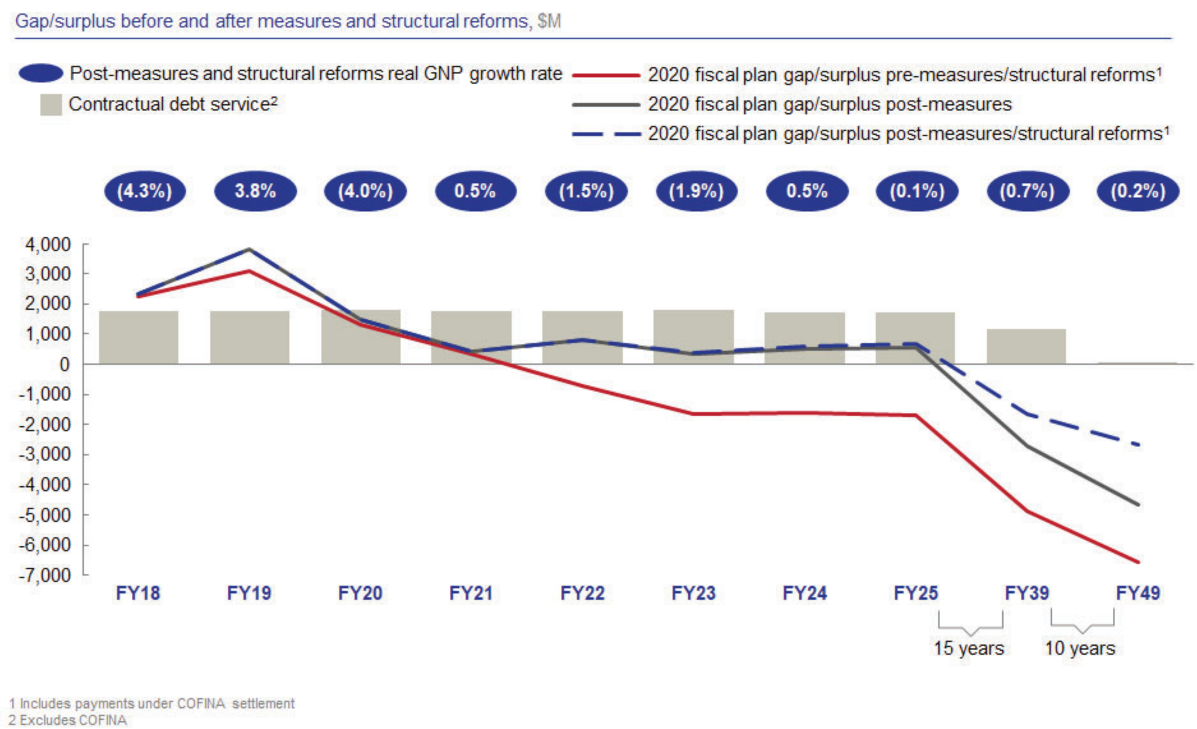
2020 Fiscal Plan for Puerto Rico

Restoring Growth and Prosperity

As certified by the Financial Oversight and Management Board for Puerto Rico

May 27, 2020

EXHIBIT 4: 2020 FISCAL PLAN PROJECTED SURPLUS BEFORE AND AFTER MEASURES AND STRUCTURAL REFORMS



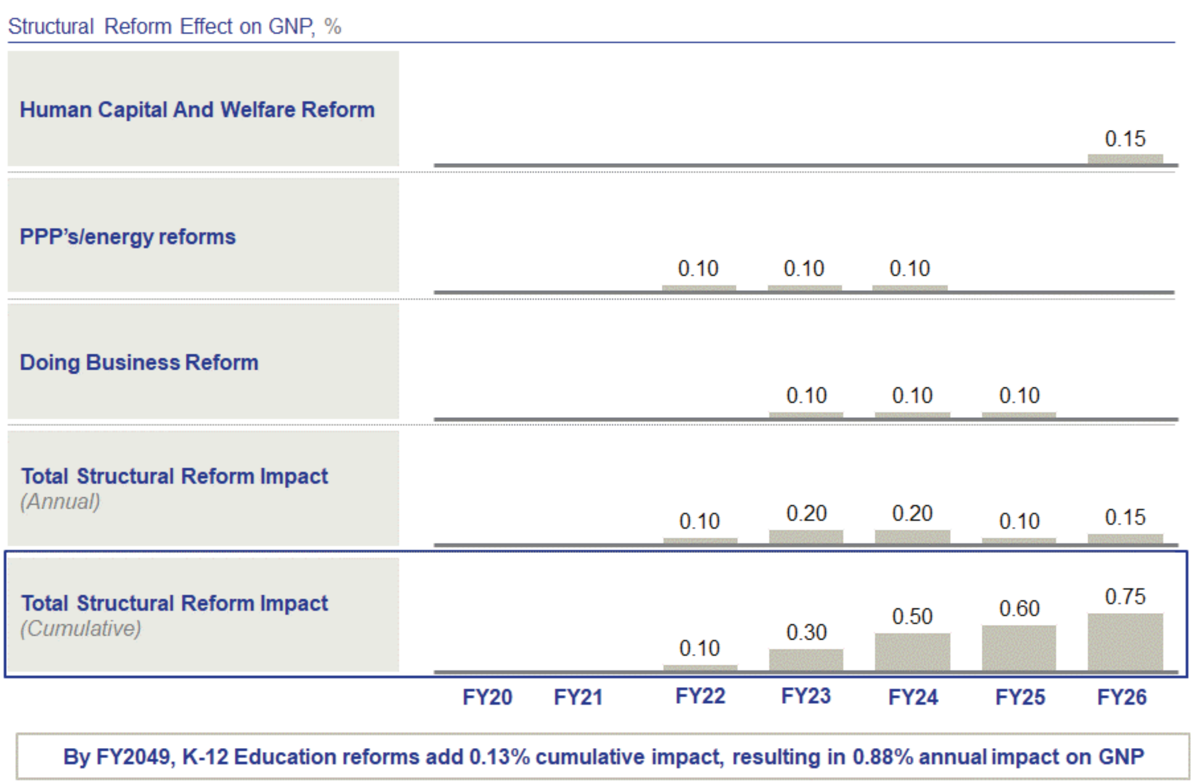
In conclusion, the Government of Puerto Rico cannot afford to meet its current contractual debt obligations, even with aggressive implementation of the included reforms and measures. The cumulative effect of multiple unprecedented natural disasters, on top of a decade-long secular recession, have left Puerto Rico with substantially diminished resources and capacity. Even with implementation of far-reaching, growth-inducing structural reforms, the 2020 Fiscal Plan projects that the Government cannot afford to meet its current contractual obligations. Recognizing the importance of the ongoing Title III proceedings, but taking into account these realities, the Oversight Board has paused discussion and prosecution of the Plan of Adjustment and the corresponding Disclosure Statement filed on February 28, 2020. The Oversight Board recognizes that the development of the February 2020 Plan of Adjustment proposed a sustainable debt burden for the Commonwealth, while garnering the support of General Obligation and PBA bondholders holding in excess of fifty-nine percent (59%) of such indebtedness, or approximately $10 billion. This was an important milestone and achieved through the assistance of the Title III Court's mediation team promoting dialogue among the Oversight Board and the Plan Support Agreement Creditors, all acting in good faith to achieve a consensual resolution of the Commonwealth's legacy debts. Clearly, the onset of the COVID-19 pandemic has raised the specter of both near-term and long-term material, adverse impacts from the virus upon the people of Puerto Rico and its economy. While the severity and the duration (including the possibility of recurrence) of the pandemic, as well as the full extent of federal support, are unknown, the Oversight Board's current pause on the implementation of the filed Plan of Adjustment has been, and remains, appropriate and necessary. The 2020 Fiscal Plan lays out a prudent and integrated set of actions to restore fiscal balance in the short term and outlines opportunities for more ambitious additional reforms to create the conditions for long-term fiscal balance.

4.4 Impact of structural reforms

The estimated impact of **structural reforms** is based on work done by the International Monetary Fund on labor reforms implemented in Europe (e.g., Spain and Estonia) and South America (e.g., Peru and Colombia), among other jurisdictions; utilities reform in Latin America; broadly-accepted metrics for measuring improvement in the World Bank's Ease of Doing Business Rankings (as well as case examples of growth experienced by countries that have implemented such reforms); and education reforms in Europe and elsewhere. Structural reform benchmarks, to the extent possible, come from nations or jurisdictions that face similar constraints to Puerto Rico (e.g., limited monetary policy options, high informal labor markets).

Energy and ease of doing business reforms are projected to increase GNP by 0.60% by FY2025, and Human Capital and welfare reform is expected to add another 0.15% in FY2026 (*Exhibit 12*). Finally, K-12 education reforms add an additional 0.01% annual impact beginning in FY2037, resulting in total GNP increase from structural reforms of 0.75% by FY2026 and 0.88% by FY2049. The anticipated timing of the incremental positive impact of these reforms has been delayed in this Fiscal Plan given the delay in the Government's implementation efforts.

EXHIBIT 12: MACROECONOMIC IMPACT OF STRUCTURAL REFORMS



4.5 Population projections

Even before Hurricanes Maria and Irma hit the Island in 2017, Puerto Rico's population had been trending downward by 1-2% every year as residents have left to seek opportunities elsewhere and birth rates declined. In 2016, the US Census Bureau's official forecast, projected a worsening population outlook due in large part to Puerto Rico's rapidly-aging population. This high average age range results from extremely low age-adjusted birth rates and outmigration of younger people. Indeed, in 2016, Puerto Rico began to experience negative

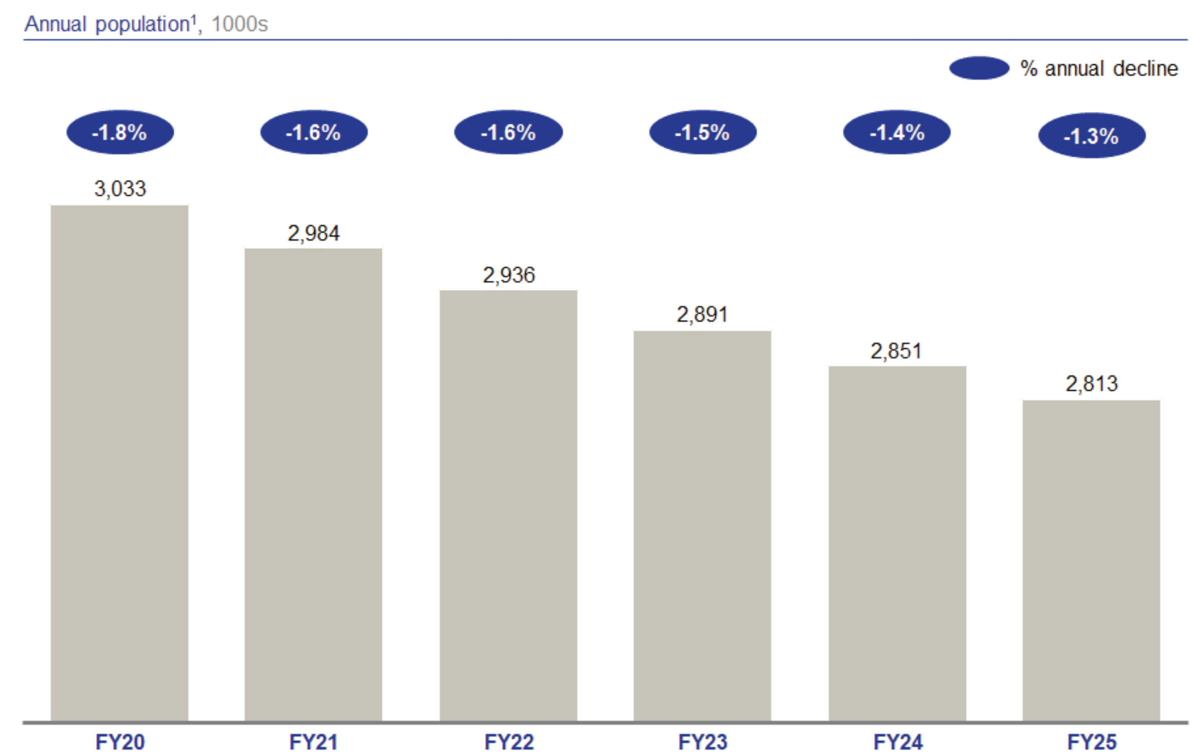
natural population change (a higher number of deaths than births). This negative natural change has continued unabated into 2020.

Hurricanes Irma and Maria served to compound the problem, spurring an additional outflow of people just as natural population decline has set in, as many residents lost houses, jobs, and loved ones. While some of these people have returned, the population is still projected to decline over the course of the 2020 Fiscal Plan period (*Exhibit 13*) and beyond. Further disasters, such as the series of earthquakes experienced in 2020, have not made a swift return to balanced migration any more likely. But while net migration is a larger driver of population change in the short term, this factor is volatile; in the long run, net migration is projected to return to more balanced trends. Meanwhile, natural population change is not guaranteed to rebalance at any point, and births are likely to continue declining, while deaths are projected to rise or stay stable.

The COVID-19 pandemic has been less severe in Puerto Rico than in many other areas thus far, and therefore no large epidemic-driven mortality rate increase is anticipated. COVID-19 is expected to suppress air traffic between Puerto Rico and the mainland, and thus impact migration, but this effect will be transitory.

As outlined in *Exhibit 13* below, this 2020 Fiscal Plan projects that by FY2025, there will be 9% fewer people living on the Island than in FY2019, and that by FY2049, the drop will grow to 30%.

EXHIBIT 13: PROJECTED POPULATION CHANGE



1 For reference, the population was 3.10M, 3.09M, and 3.03M in FY18, FY19, and FY20, respectively

4.6 Impact of First Circuit ruling on Supplemental Security Income benefits

On April 10, 2020, the US Court of Appeals for the First Circuit issued a ruling in a case related to the eligibility of Puerto Rico residents for Supplemental Security Income ("SSI") benefits

(*US v. Vaello-Madero*, 2020). SSI provides "monthly benefits to people with limited income and resources who are disabled, blind, or age 65 or older. Blind or disabled children may also get SSI."[19] SSI benefits have been available to otherwise qualifying residents of the 50 states, the District of Columbia, and the Northern Mariana Islands. Residents of Puerto Rico, however, have not been eligible for SSI benefits.

The case involved an SSI recipient who moved from New York to Puerto Rico and was subsequently required to repay SSI benefits received while the recipient was resident in Puerto Rico. The court ruled in favor of the recipient, finding the exclusion of Puerto Rico residents from SSI coverage to be invalid.

The court's finding is consequential, but the path forward is highly uncertain. The US Department of Justice has not indicated whether it intends to appeal the court's ruling, and the Social Security Administration, which administers SSI benefits, has not issued public guidance on how it will address the ruling of the court or on what time frame it will do so.

If SSI benefits were ultimately extended to eligible residents of Puerto Rico, initial analysis suggests that it could provide over $1 billion in incremental annual federal transfers to Puerto Rico. This amount would undoubtedly be welcome support to qualifying residents across the Island and could enable some level of increased consumption. The ultimate economic impact of these transfers is unclear, however, and will be examined in future Fiscal Plans. As of the time of certification of the 2020 Fiscal Plan, there is no information as to when and how the benefits will become available to residents of Puerto Rico, how the Government of Puerto Rico will work with the Social Security Administration to implement the changes, and what program integrity steps will be taken to ensure only those eligible receive it.

Chapter 5. Fiscal Plan financial projections (FY2020-FY2025)

The COVID-19 pandemic will have a profound impact on economic growth and, ultimately, on Government revenues. In a recent report, Moody's Investor Services stated "it will take years for state revenue to return to 2019 levels without tax increases, while recovery to a level where no COVID-19 crisis occurred is unlikely over a five-year horizon."[20] The impact to Puerto Rico is expected to be no less severe, with a real GNP decline in FY2020 of -4.0% will change the trajectory of economic activity in Puerto Rico over the entire forecast period.

As a consequence of this new economic reality, before measures and structural reforms (i.e., in the "baseline forecast"), there is a pre-contractual debt service deficit for all years of the 2020 Fiscal Plan.[21] This deficit gets worse over time, as federal disaster relief funding slows down, Supplemental Medicaid funding phases out, Act 154 and Non-Resident Withholding revenues decline, and healthcare expenditures rise.

The fiscal measures and structural reforms contained in the 2020 Fiscal Plan are the main drivers for a significant portion of the surplus in the 2020 Fiscal Plan. Fiscal measures will drive ~$10.0 billion in savings and extra revenue over FY2020-FY2025 and structural reforms will drive a cumulative 0.88% increase in growth by FY2049 (equal to ~$24.7 billion). However, even after fiscal measures and structural reforms, and before contractual debt service, there is an annual deficit reflected in the projections starting in FY2032. This is, in

19 Understanding Supplemental Security Income (SSI) Overview -- 2020 Edition, US Social Security Administration

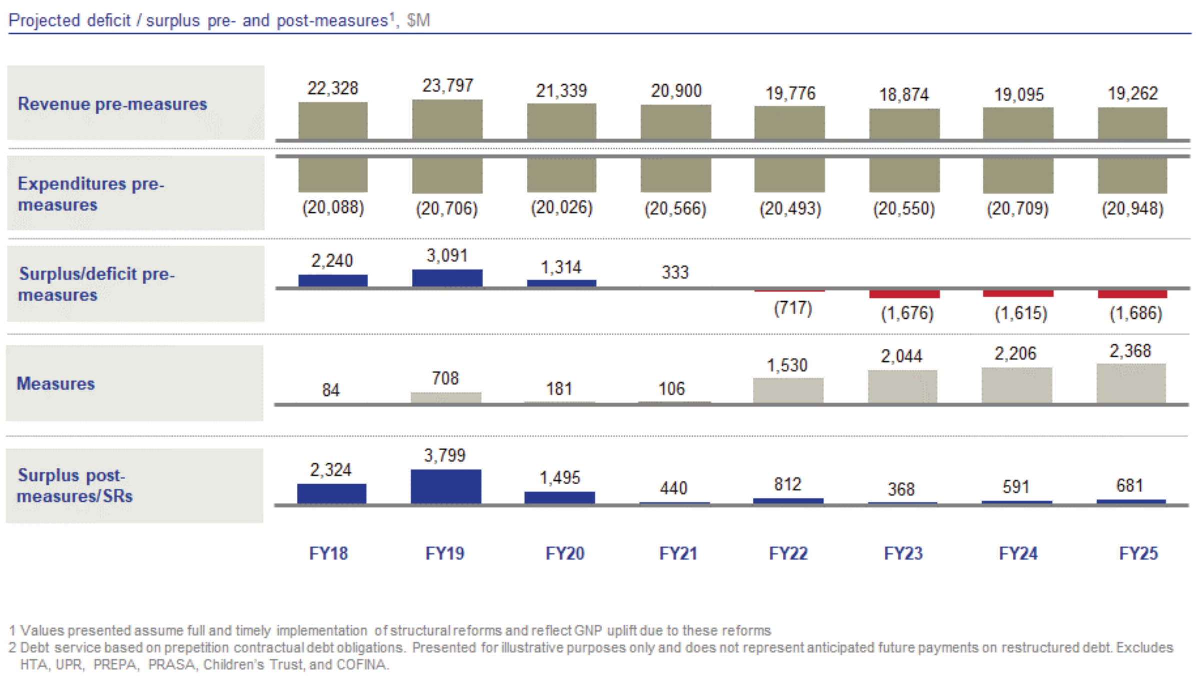
20 Moody's Investors Service, April 24, 2020: "Revenue recovery from coronavirus hit will lag GDP revival, prolonging budget woes"

21 The baseline forecast also reflects the pledge of a portion of annual SUT revenues to COFINA creditors as per the terms of the COFINA Title III Plan of Adjustment.

large part, due to insufficient structural reforms, including continued highly regulated and restrictive private sector labor market policies that prevent higher growth, a lack of progress in rolling out the NAP work requirement to increase labor force participation rates, and more meaningful Ease of Doing Business reforms to improve the economy's competitiveness and attract greater levels of investment and job creation. *Exhibit 14* illustrates the projected deficit / surplus through FY2025.

Projections for FY2026 onwards are included in *Chapter 6*.

EXHIBIT 14: PROJECTED DEFICIT / SURPLUS PRE- AND POST-MEASURES



5.1 Baseline revenue forecast

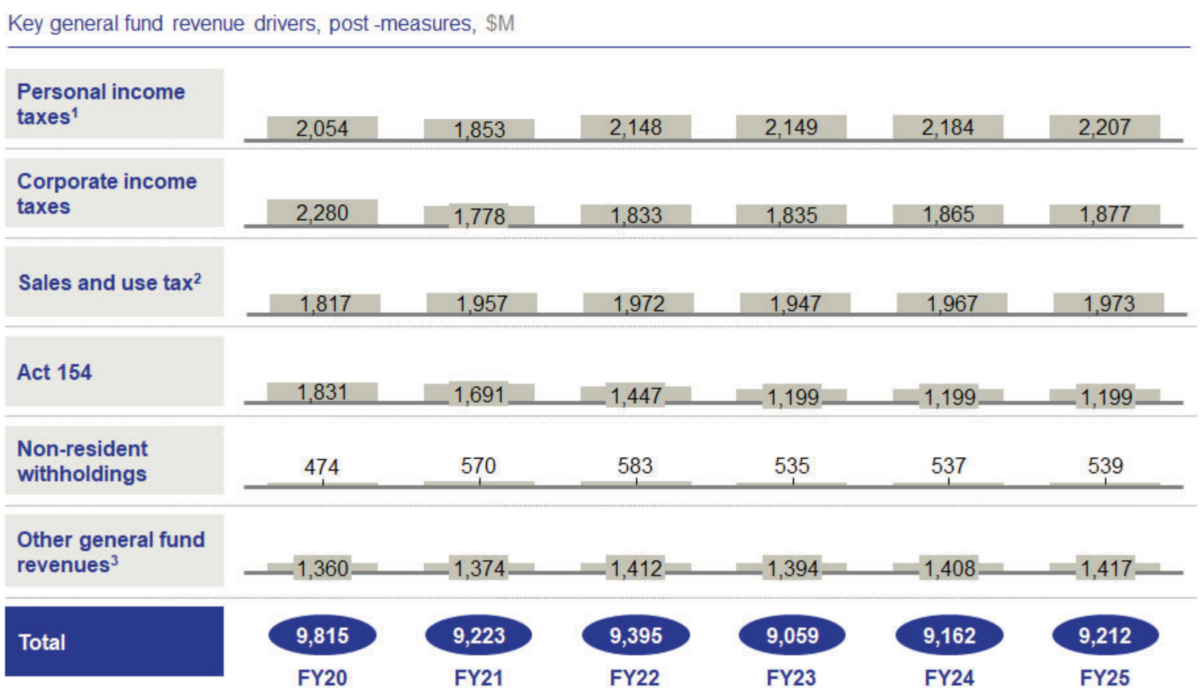
Major revenue streams (*Exhibit 15*) include non-export sector General Fund revenues (including individual, corporate, and sales and use taxes) and export sector revenues (including Act 154 excise taxes paid by multinationals operating on the Island, and Non-Resident Withholdings), as well as federal funding. The 2020 Fiscal Plan also includes clawback revenues in the Commonwealth's revenue streams and surplus calculations; this is based on the Oversight Board's legal conclusions that (i) such monies are property of the Commonwealth, (ii) each statute appropriating or transferring such monies to instrumentalities of the Commonwealth is preempted by PROMESA, (iii) such statutes were enacted by prior legislatures that cannot bind the current legislature, and (iv) in any event, under the Puerto Rico Constitution, such monies would not be transferred to the instrumentalities while General Obligation debt is not being paid according to its terms.

The 2020 Fiscal Plan generally reflects the revenue impact of COVID-19 in line with the estimates of macroeconomic impact described in *Section 4.1*. There is expected to be significant near-term uncertainty in the level of revenue collections as the expected duration and severity of the COVID-19 induced recession is constantly evolving. Personal income taxes will be significantly impacted by high unemployment. Consumption taxes will be impacted by lower overall economic activity. The 2020 Fiscal Plan estimates these impacts based on the

information currently available. Relative to the 2019 Fiscal Plan, general fund revenues are expected to be 12% lower in FY2020 and 11% lower in FY 2021.[22]

Administrative actions taken to delay tax payment due dates had the effect of delaying receipt of ~$668 million in taxes otherwise due in FY2020 to FY2021, according to Hacienda estimates. The 2020 Fiscal Plan treats these revenues as FY2020 tax revenues even though for some taxes the deadline for payment has been extended to early FY2021. The 2020 Fiscal Plan also forecasts that 10% of these revenues will not be received due to taxpayer inability to pay. The Oversight Board will work with Hacienda to track these receipts and adjust for actuals, including losses due to taxpayer inability to pay. In addition, ~$44 million in FY2020 SUT collections will be foregone as a result of tax exemptions on prepared food and on purchases for COVID-19-related first-aid items through May 2020

EXHIBIT 15: MAJOR REVENUE STREAMS



1 Does not include the expense related to EITC which is approximately $204 million per year
2 Sales and use tax (SUT) reflects collections after payout of the COFINA settlement
3 'Other' general fund revenues include cigarette, rum, motor vehicles, alcoholic beverages, and other GF taxes; exclude adjustments for revenue gross up

Additional details on the fiscal plan revenue streams are provided below, with details on the financial projections included in the Appendix. The following sections describe the longer-term approach to estimating revenues for key revenue streams.

5.1.1 Non-export sector General Fund revenue projections

Individual income taxes: Individual income taxes are highly concentrated, with 78.2% of revenues coming from the 8.7% of returns reporting income above $60,000 in FY2018.[23] The 2020 Fiscal Plan also incorporates the expected incremental tax collections associated with disaster recovery spending. Individual income tax collections outperformed relative to GNP growth in FY2018 and FY2019, and were on trend to do so again in FY2020 prior to the onset of COVID-19. The 2020 Fiscal Plan projects that disaster recovery spending will continue to contribute to the income tax base, either through mainland workers temporarily working in

22 Adjusted for one-time corporate income tax payments not included in the 2019 Fiscal Plan forecasts
23 Hacienda historical reports as of April 2018

Puerto Rico or from Puerto Rican residents entering the formal economy as a result of disaster recovery projects.

Corporate income taxes: There is also concentration in tax receipts among the largest corporations operating in Puerto Rico (e.g., ~29% of corporate income taxes are paid by 20 corporate taxpayers).[24] Historical aggregated data from Hacienda showed an influx of corporate activity spurred by reconstruction funding and mainland-based firms entering the Island economy. This had led to higher corporate income taxes relative to GNP in FY2018 and FY2019, and this trend was continuing in FY2020 prior to the onset of COVID-19. The 2020 Fiscal Plan incorporates the contribution of disaster recovery spending into future years. The 2020 Fiscal Plan projections reflect certain adjustments to corporate income tax revenues attributable to one-time M&A activity which resulted in a non-recurring $488 million of revenues in FY2020 and $73 million in reduced corporate income taxes starting in FY2021, as projected by Hacienda.

Sales and use taxes (SUT): As with corporate and personal income taxes, SUT outperformed relative to GNP in FY2018 and FY2019, likely boosted by the increased economic activity resulting from the post-disaster reconstruction process (including through the replacement of lost inventory), as well as higher SUT compliance by those larger firms less impacted by the storm. The 2020 Fiscal Plan incorporates this incremental tax collection as disaster recovery continues in future years. Following the COFINA Title III Plan of Adjustment, a portion of SUT collections will be used to pay the settlement going forward. This portion reaches ~$1 billion annually starting in FY2041.

Other General Fund revenue (Motor Vehicles, Alcoholic Beverages, Cigarettes): Motor vehicle revenue tax receipts surged in FY2018 and this trend continued into FY2020, as residents accelerated motor vehicles purchases in the aftermath of the storm. The 2020 Fiscal Plan reflects accelerated purchasing of motor vehicles that subsides and returns to historical trends over multiple years. The 2020 Fiscal Plan also reiterates a need for Hacienda to address challenges with cigarette taxes, which were $72 million short of required collections in FY2019. This trend was continuing in FY2020 pre-COVID-19, as Hacienda has yet to take steps to recover the lost revenues.

Export sector revenue projections: Act 154 and Non-Resident Withholding (NRW) tax revenues are concentrated in a small number of multinational corporations. From FY2017 to FY2023, the 2020 Fiscal Plan estimates that Act 154 and NRW revenues will erode due to US federal tax reform (reducing Puerto Rico's attractiveness as a low tax jurisdiction for multinationals), global supply chain diversification, and patent expirations.

5.1.2 Medicaid funding

On a steady-state basis (i.e., in the absence of supplemental federal legislation), Medicaid costs are funded primarily by the Commonwealth, as there is a cap on available federal funding. Typical annual federal funding streams for the Commonwealth are the following, and are projected based on current law and statutory growth rates:

- **Standard annual federal Medicaid funding.** Although Puerto Rico has a 55% federal matching assistance percentage (FMAP), the amount of annual federal funding received under Section 1108 is capped each year. For FY2020, this funding stream was expected to be capped at $380.3 million, and though the cap grows each year according to the Medical CPI-U, it does not keep pace with healthcare expenditure growth.[25] Each year, ~$100

24 Hacienda historical reports as of April 2018

25 According to §1108(g) of the Social Security Act., from 2011 to 2016, the cap grows by the medical component of CPI-U as reported by BLS each year. From FY2011-FY2016, this growth averaged 2.9%. This inflation rate differs from the healthcare inflation index for Medicaid and Medicare used elsewhere in the 2020 Fiscal Plan (4.5% to 5.5% from FY2020-FY2022, decreasing to 4.75% in FY2049). Instead, the medical component of CPI-U includes other factors that lower the inflation rate

million of these funds are not available to cover premium expenses, but rather are transferred to the Department of Health to cover disbursements to Federally Qualified Health Centers ("Centros 330" or "FQHC") and Medicaid Program operations.

- **Children's Health Insurance Program (CHIP) funding.** CHIP funding is not subject to a federal funding cap. Without additional legislation, the CHIP matching rate (E-FMAP) for Puerto Rico is expected to be 68.5%. Under the Affordable Care Act, the E-FMAP for Puerto Rico was raised to 91.5% through September 30, 2019; under the 2020 Further Consolidated Appropriations Act, the E-FMAP was increased to 83.2% through September 30, 2021 (with an additional 11.5% increase through September 30, 2020 under the 2018 HEALTHY KIDS Act); and under the Families First Coronavirus Response Act, the E-FMAP was increased to 99.0%. When these pieces of legislation expire in October 2021, the federal cost share is projected to decrease to the standard level (~68.5%).[26]

- **Increases in available Medicaid funding from federal legislation:** Since 2011, Puerto Rico has received temporary relief from rising healthcare costs through increased levels of federal reimbursement made available through the passage of the Affordable Care Act and the Bipartisan Budget Act of 2018. In December 2019, the Further Consolidated Appropriations Act was passed, which provided supplemental federal funding (up to $5.7B in total) to Puerto Rico's Medicaid program through September 30, 2021 (i.e., the first quarter of FY2022). In addition, the law raised the FMAP—the portion of Medicaid expenditures that federal funds can cover—from the standard level of 55% to 76% for most populations. Finally, as mentioned above, in response to the COVID-19 pandemic, the Families First Coronavirus Response Act was passed in March 2020, further increasing both the available federal funds (adding an additional $183M) and the FMAP (increased by an additional 6.2% for most populations). The available supplemental federal funds and higher FMAP will both return to standard levels in October 2021 without new federal legislation. Accordingly, the Commonwealth will hit a "Medicaid fiscal cliff," whereby it will be responsible for multi-billion-dollar annual healthcare expenditures that had previously been covered by federal funding since 2011. The 2020 Fiscal Plan does not assume future legislation changes. The 2020 Fiscal Plan ensures that the Commonwealth is fiscally responsible under current law, and factors in the cost of Medicaid going forward in the absence of incremental legislation. To ensure healthcare for a substantial part of the population, the Commonwealth must be able to pay and manage these critical costs, which grow faster than inflation, regardless of the future federal legislative environment.

Exhibit 16 outlines expected Medicaid federal fund receipts. After the first quarter of FY2022 (ending September 30, 2021), supplemental federal funding is projected to phase out. This "funding cliff" further exacerbates the imperative and urgent need to implement cost-saving measures to reduce long-term Medicaid costs (Medicaid expenditures are discussed in detail in *Section* 5.2.4*)*. All projections are based exclusively on legislation that is currently in force.

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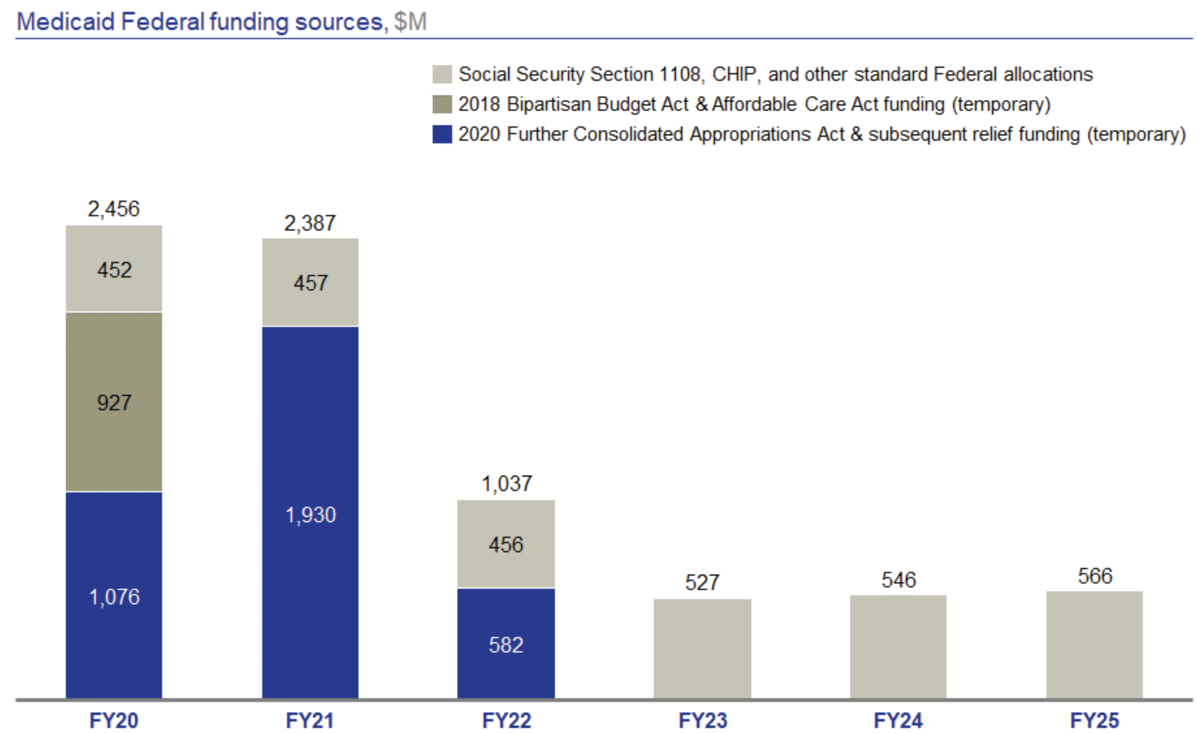
by approximately 3-5 percentage-points, meaning the increase in the federal funding cap will not keep up with actual increases in expenditures

26 MACPAC: "Medicaid and CHIP in the Territories" (April 2020)

EXHIBIT 16: BASELINE FEDERAL FUNDS RECEIPT PROJECTIONS



5.1.3 Other federal funding

In addition to Medicaid funding, Puerto Rico receives other federal funds on a regular basis. These are not to be confused with disaster relief funds, which are directly tied to Hurricane Maria and earthquake reconstruction activity, or with COVID-19 response and relief funds, which are meant to cover incremental government spend to respond to the global pandemic. These funds typically cover both social benefits and operational expenditures. In the 2020 Fiscal Plan, these funds have been modeled based on what types of costs they cover (e.g., benefits or operations) as well as statutory formulas that define the size of Puerto Rico's allotment. For example, while Temporary Assistance for Needy Families (TANF) funds are typically pass-through (e.g., none of these funds go to operational costs), some Title I education funds are used for operational purposes (e.g., teachers' salaries, school supplies for programs for students with special needs, etc.). For the former, federal fund inflows and outflows mirror each other (as benefit needs decline, so do funds). For the latter, though inflows may decline, it does not necessarily mean expenditures decline as well – as expenditures are based on operations, not on benefits formulas, and the Commonwealth may have to fund the operations notwithstanding reduced federal funding. Meanwhile, while Head Start funds are allocated from the Federal Government based on the number of children living in poverty, NAP funds are provided through a block grant that is capped. The former, therefore, should change by population, while the latter should only grow with inflation, regardless of population changes.

5.1.4 Special Revenue Funds

Commonwealth agency Special Revenue Fund (SRF) revenues: The Commonwealth collects a significant portion of its revenues through Special Revenue Funds, which are funded from, among other sources, tax revenues transferred by statutes, fees and charges for services by agencies, dividends from public corporations and financing proceeds. Government tracking and reporting of these SRF revenues, associated expenses, and resulting surpluses or deficits has historically been incomplete and inconsistent. The baseline level of SRF revenues of

Commonwealth agencies (excluding IFCUs) has been updated in this 2020 Fiscal Plan. The 2020 Fiscal Plan does not further detail SRF by type (special state funds, own revenues and other revenues), as Commonwealth agencies (excluding IFCUs) do not report this level of detail. Future budget and Fiscal Plan processes will aim to further clarify Special Revenue Funds and apply controls to ensure transparency and accountability for these revenues. SRF revenues from fees and collections are also expected to be negatively affected by the COVID-19 pandemic, as agencies face decreased demand for services as a result of the lockdown.

Independently Forecasted Component Unit (IFCU) revenues: The Commonwealth contains thirteen Independently Forecasted Component Units, which range from public corporations (e.g., the State Insurance Fund Corporation) to public hospitals (e.g., the Cardio Center). These entities are mostly funded by Special Revenue Funds and may also receive General Fund appropriations. Through the FY2020 budget process and FY2019 actuals, the Oversight Board was able to gain more insight into the specific revenue streams for these entities to further refine the IFCU revenue projections. While most IFCU revenues are projected using GNP, given the unique nature of each IFCU, certain revenue streams are grown by other factors, such as inflation, population, or as governed by legislation. The 2020 Fiscal Plan factors in the significant expected negative impact of the COVID-19 pandemic on demand for government- and tourism-related services.

Municipal contributions to PayGo and ASES: The 2020 Fiscal Plan includes receipts from municipalities to cover retirement and healthcare expenses incurred by the Commonwealth on their behalf. Since the passage of Act 72-1993, ASES has received funding from municipalities for the administration and delivery of the Government Health Plan on their behalf. Similarly, since the passage of Act 106-2017, municipalities that participate in ERS are financially responsible for PayGo expenditures covered by the Commonwealth. The passage of Act 29-2019 disrupted this model and required the Government to fund municipalities' PayGo and Medicaid costs from the General Fund without receiving reimbursement from the municipalities. However, following legal proceedings initiated by the Oversight Board challenging the validity of Act 29-2019 under PROMESA, the Title III court ruled that Act 29-2019 violated PROMESA and nullified the law, thereby reinstating the municipalities' obligation to cover PayGo and healthcare payments for their employees. This ruling's consequences enabled the Commonwealth to seek reimbursement for prior payments made under Act 29-2019 and empowered the Commonwealth to act if these contributions are not received (e.g., to withhold payments for utilities, appropriations). The effective date of the court's ruling was delayed to May 7, 2020 so as to allow for the parties to discuss potential solutions to the financial challenges faced by municipalities, particularly in light of the COVID-19 pandemic. Accordingly, the 2020 Fiscal Plan assumes that municipalities fund their respective contributions for PayGo and healthcare expenditures going forward. In calculating municipalities' healthcare expenditures, however, the 2020 Fiscal Plan does take into account the incremental federal funding support in FY2021 and FY2022 made available through the 2020 Further Consolidated Appropriations Act. Given that this funding stream expires in FY2022, the 2020 Fiscal Plan assumes that contributions from municipalities thereafter will return to previous levels, but the Oversight Board would consider utilizing a similar approach in future years should additional federal funding again be provided.

Public Corporation PayGo receipts: The 2020 Fiscal Plan includes receipts from public corporations that participate in ERS to cover PayGo expenditures covered by the Commonwealth. The Commonwealth shall be reimbursed for these payments and will act if these contributions are not received (e.g., will withhold payments for utilities).

FAM: The Municipal Administration Fund (FAM) collects 0.5% of the SUT which is distributed into three funds: (1) 0.2% to the Municipal Development Fund; (2) 0.2% to the Municipal Redemption Fund; and (3) 0.1% to the Municipal Improvement Fund (referred to as the FMM). Pursuant to Section 4050.09 of Act 1-2011, the FMM are to be distributed through annual legislation and appropriated for select capital works and improvement

projects for the municipalities (e.g., public housing, schools). The legislature passes resolutions each year to allocate the FMM. These resolutions must be consistent with the 2020 Fiscal Plan and the applicable special revenue funds included in the Certified Budget.

5.1.5 Gross-up for tax credits

Gross-up of revenues to reflect potential revenues without payment of tax incentives: In addition to offering preferential tax rates, tax exemptions, tax abatements, and cash grants, the Government of Puerto Rico incurs hundreds of millions of dollars in tax credits to corporations and individuals each year. Some of these tax credits function as entitlement programs: any business that meets the requirements set forth in law is entitled to the benefit. Other tax credits give government officials considerable discretion on which projects will receive incentives. Many of these tax credits are intended to pursue certain policy goals such as stimulating employment, stimulating economic activity and economic development, encouraging investment, and protecting local industries. Unlike traditional expenditures, however, tax credits are not incurred in a transparent fashion, and, with only a few exceptions, are currently uncapped by any aggregate amount of benefits conveyed. The issuance of tax credits also tends to be done in an ad hoc manner, with unclear economic justification for the costs incurred and without monitoring of the goals described above (i.e., how many jobs in any particular year were created). This leads to an unpredictable, and potentially costly, foregone revenue stream each year.

Uncapped and unpredictable issuance of tax expenditures can have a materially negative fiscal impact. Several states have faced challenges with unexpected levels of expense from tax expenditures, such as Michigan (the Michigan Economic Growth Authority tax credits), Louisiana (tax credit for horizontal natural gas drilling), and New York ("brownfields" tax credits). The examples from these states are not uncommon and they reinforce the uncertainty and risk associated with the establishment of tax credits.

Policy makers in Puerto Rico must understand both the budget implications of current and proposed tax expenditures and be able to manage the size of tax incentives by setting limits on their annual cost and eliminating tax credits with negative returns. The issuance of reliable cost estimates, including a detailed analysis of the budget implications from each tax incentive and annual cost controls will help Puerto Rico avoid unexpected negative outcomes. Otherwise, the Government will remain powerless to manage the cost of these incentives and keep the incentives from growing uncontrollably.

Recognizing the importance of this question to the fiscal sustainability of Puerto Rico, the 2020 Fiscal Plan includes a forecast of gross revenues inclusive of the value of tax credits, along with their associated expenditures. The 2020 Fiscal Plan includes a forecast of gross revenues based on the historical level of certain tax credits claimed on income tax filings for individual filers, regular corporation filers, and incentive tax filers, as provided by Hacienda. As shown in *Exhibit 17*, over eight tax years (2010-2017), tax credits claimed across all tax filers averaged $247 million annually. The Oversight Board requires all reporting going forward to include monthly and quarterly reports as to the gross revenues, tax credits claimed, and the net revenues received for the period of the report.

EXHIBIT 17: TAX CREDITS BY YEAR

Projection ($M)	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017
Regular Corporations	94	47	87	84	76	65	59	32
Incentive Corporations	135	147	133	158	116	78	70	56
Individuals	59	38	90	69	65	66	61	88
Total Tax Credits Claimed	**288**	**231**	**309**	**310**	**258**	**209**	**190**	**176**
8-Year Average								**247**

SOURCE: Hacienda

The Government should adopt a transparent limit to the amount of tax credits issued and claimed at an amount below $247 million by, for example, capping the notional amount, restricting the number of companies and individuals that can claim credits annually, including sunset provisions, or inserting time bound clauses upon which each tax credit will expire. This is similar to the approach that other states have taken to limit the use or issuance of tax expenditures, including Arizona, California, Florida, Illinois, Massachusetts, Minnesota, New York, Ohio, and Pennsylvania. This limit is separate and incremental to the cash grants that corporations and individuals also receive, which will be captured in Certified Budgets going forward. Future Fiscal Plans must also be expanded to include limitations on foregone revenues due to preferential tax rates and exemptions, including municipal exemptions.

These forecasts must be maintained and updated by leveraging the work that Hacienda has undertaken to produce and maintain a more comprehensive measurement of tax expenditures over time through the annual Tax Expenditures Report. As discussed in more detail in Section *16.3.1*, the publication of the initial Tax Expenditures Report in September 2019 provided, for the first time, better visibility into the full scope of tax expenditures being offered, together with a description and approximate cost of each expenditure. To continue building on this positive first step, the Government must provide an annual update to this report. The Government has also taken initial steps to provide transparency around, and control these expenditures through its proposed reforms to the Incentives Code. Only by explicitly appropriating money for incentives in the Certified Budget, and by setting a limit on the amount that can be spent each year, will tax incentives start to function more like regular spending programs, with the Government retaining control over the cost, and less like open-ended commitments, and enable public debate about the value of this type of spending in light of the various needs on the Island.

5.1.6 Gross-up for COFIM receipts

COFIM is the public corporation that collects the 1% Municipal Sales and Use Tax (SUT) established by law for certain municipalities. The 2020 Fiscal Plan includes projections of this 1% revenue stream, along with exactly offsetting expenses. COFIM is not an entity that receives appropriations from the General Fund, but rather relies solely on municipal SUT.

5.2 Baseline expenditure forecast

The trend of baseline expenditures, before measures and structural reforms, is summarized in *Exhibit 18*.

EXHIBIT 18: MAJOR EXPENDITURE CATEGORIES PRE-MEASURES

Key baseline expenditure drivers (pre-measures), $M

	FY20	FY21	FY22	FY23	FY24	FY25
Payroll (non-federally funded)	2,935	2,949	2,980	3,009	3,041	3,076
Direct operating expenditures (non-federally funded)[1]	1,697	1,711	1,723	1,745	1,773	1,794
CW appropriations[2]	1,004	1,218	1,228	1,189	1,123	1,123
Commonwealth Medicaid expenditures	87	287	1,586	2,165	2,259	2,359
Pension expenditures	2,284	2,332	2,314	2,311	2,309	2,301
Other[3]	2,244	2,393	2,241	2,165	2,126	2,106
IFCU & CW SRF Expenditures[4]	2,466	2,480	2,498	2,503	2,538	2,569
Federally funded expenditures[5]	6,708	6,646	5,339	4,871	4,938	5,007
Total	19,426	20,017	19,909	19,958	20,107	20,336

1 Includes only General Fund operating expenses. Previous versions of Fiscal Plan included SRF and GF
2 Includes appropriations to HTA, UPR, and municipal expenses
3 Includes disaster recovery cost match, restructuring expenditures, loan to PREPA, maintenance capex, enterprise funds, disbursements to entities outside the fiscal plan, and other non-recurring and recurring costs; excludes adjustments for expenditure gross up
4 IFCU and CW SRF expenditures were previously included in 'Other' expenditures; for IFCUs, it includes all fund types (Federal Funds, General Funds, and SRF)
5 Includes federal funds for payroll, direct operating expenditures, Medicaid, and social programs; excludes Independently Forecasted Component Units

5.2.1 General fund payroll and non-personnel operating expenditures

Payroll expenditures: Despite progress made through the FY2021 budget process, consistent granular payroll data continues to be a challenge for the Government. FY2018 payroll numbers reflect actual expenditures where available and the Certified Budget in cases where actual data was not available (adjusted to reflect reapportionments among agencies). FY2019 was assumed to be equal to FY2018 given the Fiscal Plan Compliance Act, which enacted a payroll freeze except for certain agency-specific adjustments. Beginning in FY2020, base payroll has been assumed to grow by Puerto Rico inflation. Any reduction to baseline payroll expenditure projections from attrition, absenteeism, or workforce reductions will be captured through fiscal measures.

Non-personnel operating expenditures: Non-personnel operating expenditures in FY2019 were also assumed to be equal to FY2018 budgeted levels. Thereafter, non-personnel operating expenditures are assumed to grow by Puerto Rico inflation, with select adjustments as necessary (e.g., for reapportionments).

5.2.2 Special Revenue Funds

Commonwealth agency Special Revenue Fund (SRF) operational expenditures: The Commonwealth funds a significant portion of its expenses with Special Revenue Funds and previously did not report on these expenses transparently in a consistent manner. Given that SRF revenues and expenditures are not part of the General Fund for budgeting purposes, they are not included in the General Fund budget resolutions approved by the Legislature. However, the Oversight Board has certified SRF expenditures starting with the FY2019 budget process, with the objective of applying controls and reporting requirements to ensure transparency and accountability for these revenues and expenditures. With data made available by the Commonwealth, the baseline level of SRF expenses of Commonwealth agencies (excluding IFCUs) has been updated. Given the mandate of the Office of the CFO to

place controls on SRF expenditures, expenses are forecasted to be equal to the estimated revenues in each year.

Independently Forecasted Component Unit (IFCU) operational expenditures: Most IFCU payroll and non-payroll expenses grow by inflation, with exceptions for certain expense categories (e.g., healthcare costs grow with medical inflation, variable costs that grow in line with revenues).

The baseline expenditures include **municipality and public corporation PayGo, COFIM, and FAM expenditures**, including all the conditions outlined in *Section 5.1.4.*

5.2.3 Other federal funding

Most federal funds received by the Commonwealth are passed through to residents directly in the form of social benefits (e.g., TANF, WIC), but federal funds are also used to cover operating expenditures in many agencies. Expenditures related to pass-through federal funds are set equal to the associated revenue stream. Baseline expenditures related to operating expenditures are set based on the FY2018 federal funds budget reported by the Government and grow with inflation (and in some cases population). In the case of Title I, revenues will grow with growth in total federal funding - presumed to track US inflation - but decline with decreasing enrollment, which is the most salient determinant of Puerto Rico's annual allocation. At the same time, the 2020 Fiscal Plan assumes fixed costs associated with providing these services may not decline at the same rate (given historical Commonwealth behavior of maintaining infrastructure such as schools and program staff despite population decline).

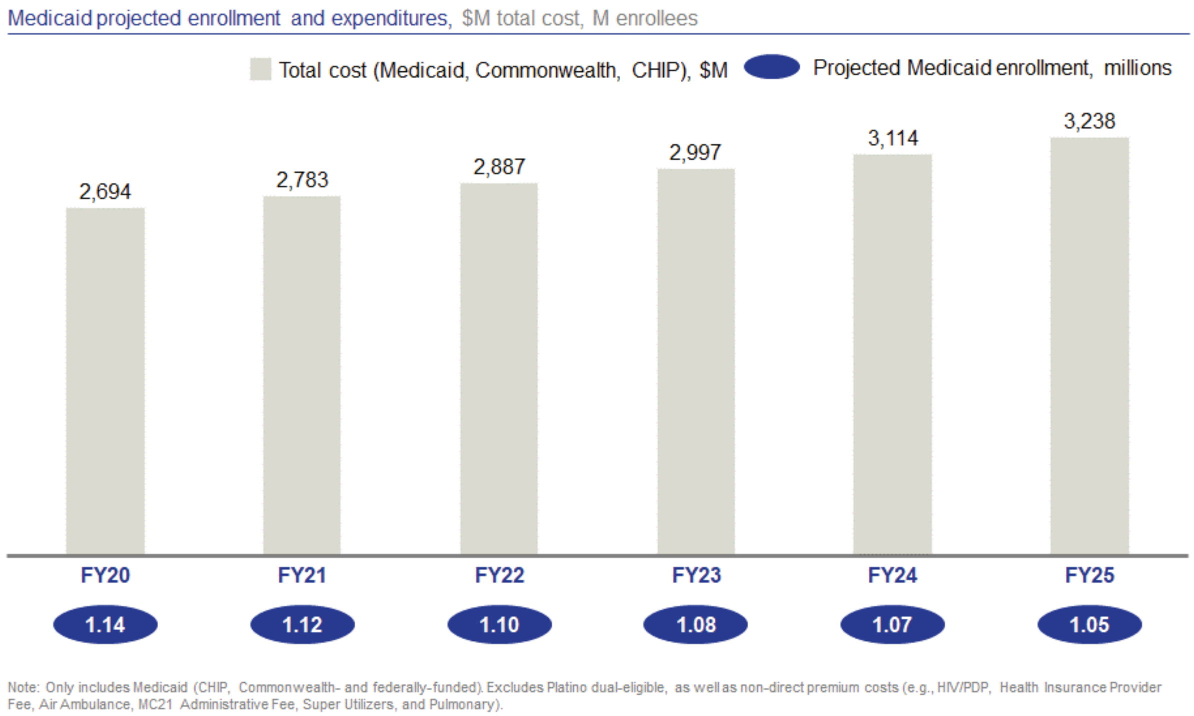
5.2.4 Medicaid expenditures

Medicaid costs are projected to reach nearly $3.4 billion annually by FY2025. These costs are primarily driven by the weighted-average cost per member per month (PMPM) multiplied by the estimated number of people enrolled in the Medicaid (federal and Commonwealth-qualified), CHIP, and Platino dual-eligible programs. Projections also include other direct health expenditures (e.g., Hepatitis C, HIV, and pulmonary programs) that do not flow through managed care. These costs are exclusive of non-medical administrative costs to ASES and the Department of Health.

PMPM costs are projected to grow at 4.5% in FY2020, followed by an increase to an annual growth rate of 5.5% in FY2022, as a result of a longer recovery from depressed utilization caused by Hurricane Maria and the impact of COVID-19. In the long term, costs increase according to an age-mix-adjusted PMPM growth rate, which reflects a shift to a younger enrollment population (see *Section 6.1*).

Enrollment rates are primarily tied to overall population decline. The large drop-off in enrollment between FY2018 and FY2020 mainly reflects the end to the auto re-enrollment period that was put in place after Hurricane Maria, a period during which many enrollees either left the Island or ceased to qualify for coverage under current thresholds. The baseline projects a return to pre-hurricane rates of enrollment in FY2020, as in the 2019 Fiscal Plan. Additional changes in enrollment may be driven by the COVID-19 pandemic or other unexpected events.

EXHIBIT 19: PROJECTIONS FOR MEDICAID AND CHIP BASELINE COST AND ENROLLMENT (EXCLUDING PLATINO)



Other Commonwealth Medicaid expenditures, which include, HIV/PDP, Air Ambulance, MC21 administrative fee, Super Utilizers, and Pulmonary, among others, are projected to grow at the rate of Puerto Rico healthcare inflation. Separate from those costs is the Health Insurance Tax (HIT), calculated each year by the Federal Government and estimated here to be 1.80% of the prior year's total premiums.[27] The Further Consolidated Appropriations Act, 2020 repealed the HIT requirement. Thus, the 2020 Fiscal Plan only reflects the estimated HIT fee anticipated to be required to be paid in FY2021 on FY2020 premium expenditures. Thereafter, the HIT fee is eliminated from projections.

Platino dual-eligible program expenditures were estimated using a consistent $10 PMPM over FY2019-FY2023 representing payment for wrap-around services supplementing main Medicare coverage (from FY2024 onwards, this cost grows by the PMPM growth rate). Enrollment is projected to be affected similarly to Medicaid enrollment. Platino costs are expected to total nearly $30 million in FY2020, decline slightly to $29 million by FY2023, and then grow again.

5.2.5 Commonwealth pension expenditures

Pension costs: Projections rely on demographic and actuarial estimations for Employees' Retirement System (ERS), Teachers' Retirement System (TRS), and Judiciary Retirement System (JRS) populations and benefit obligations. From FY2020-FY2025, costs are projected to grow slowly but remain approximately $2.3 billion per year. Since FY2018, pension benefits for all plans have been paid on a pay-as-you-go basis.

27 See Sec 4003 of FOURTH CONTINUING APPROPRIATIONS FOR FISCAL YEAR 2018 at https://www.congress.gov/115/plaws/publ120/PLAW-115publ120.pdf. Based on actuarial estimates provided by ASES.

5.2.6 *Appropriations*

Municipalities: Baseline municipal appropriations are projected to remain constant at ~$220 million, which represents the FY2018 appropriation level exclusive of a $78 million *one-time* allotment to municipalities made in the aftermath of Hurricanes Irma and Maria.

University of Puerto Rico (UPR): The UPR appropriation baseline is $717 million in FY2019 and remains ~$717 million from FY2020-FY2023.

Highways and Transportation Authority (HTA): The Commonwealth provides HTA with an annual appropriation for capital expenditures and other costs. The 2020 Fiscal Plan provides that the HTA appropriation will be variable and set so as to cover HTA's forecasted annual deficits (after operating expenses and capital expenditures), as well as fund an "emergency reserve" account for the agency. The target size of the emergency reserve is initially set at ~$250 million, in-line with best practices in other US jurisdictions, and will be adjusted each year in order to keep pace with inflation. As a result, the 2020 Fiscal Plan includes an average annual appropriation of ~$219 million over FY2021-FY2023, with ~$51 million per year funding OpEx deficits, ~$123 million per year funding CapEx deficits, and ~$45 million per year funding the "emergency reserve." Thereafter, the annual appropriation is forecasted to decline as HTA operating surpluses are available to fund capital account deficits. Over FY2024-FY2049, the 2020 Fiscal Plan includes an average annual appropriation of ~$59 million, with ~$54 million per year funding CapEx deficits and ~$5 million per year funding the "emergency reserve." The 2020 Fiscal Plan also encourages HTA to prioritize and accelerate project delivery, focusing on the projects of utmost strategic importance to the residents of Puerto Rico.

5.2.7 *Other operating & capital expenditures*

Utilities: The 2020 Fiscal Plan uses the estimated billings from PREPA and PRASA on an agency level, which are then projected to grow over the period of FY2021-FY2030 according to forecasted utility rates (and then according to inflation thereafter).

Insurance (PRIMAS): The Commonwealth bears costs related to insurance premiums (e.g., property insurance, liability insurance). Government reporting on these costs has not been transparent or consistent over time (e.g., not all agencies report these costs independently of other operating expenses, reporting is not consolidated across General Fund and Special Revenue Funds). The Government reports that insurance costs have increased from FY2018 to FY2020 due to Hurricanes Maria and Irma. Given the potential risk of future hurricanes, the baseline expenses related to insurance have been increased, but the Government must improve reporting on these expenses going forward so that they can be managed appropriately.

Capital expenditures: Centrally-funded General Fund maintenance and capital expenditures of the Commonwealth (excluding PREPA, PRASA, HTA self-funded capital expenditures and one-time transfers) are expected to grow by inflation from a baseline of ~$400 million in FY2018. In FY2021, ~$59 million of the baseline expenses will be appropriated to HTA (as part of the total appropriations), with the remaining ~$308 million for use by the Commonwealth. HTA's capital expenditure funds will be used to support reconstruction, maintenance, traffic reduction, completion of the strategic network, and P3-related expenditures. Other General Fund capital expenditures will be allocated to priority projects. The 2020 Fiscal Plan includes annual Special Revenue Fund capital expenditures of $50 million.

5.2.8 *Reconstruction and restructuring related expenditures*

Cost-share for disaster relief funding: Federal funds for FEMA's public assistance and hazard mitigation programs typically require a local match from the entity receiving them

(anywhere from 10-25% of funds). In the case of Puerto Rico, the 2020 Fiscal Plan projects that the Commonwealth will need to cover an estimated ~10% of federal public assistance funds, amounting to $3.5 billion from FY2018-FY2032. The instrumentalities will shoulder a further $1.2 billion in total cost-match expenditures during the same period. A portion of the Commonwealth and instrumentalities' cost-match expenditures are projected to be covered by CDBG funds from FY2020 to FY2032, which amounts to $2.3 billion. Meanwhile, the 2020 Fiscal Plan maintains $600 million (from FY2020 to FY2032) in reserve funds in case less CDBG funding is available than is currently projected. If these funds are unspent, they would accumulate and be utilized as part of an emergency reserve fund going forward.

Restructuring-related costs: Commonwealth restructuring-related expenditures are projected at $619 million for the period FY2020 to FY2024, and are comprised of all professional fees, including those of the Unsecured Creditors' Committee, the Retiree Committee, the Government (mostly AAFAF), and the Oversight Board. The estimate for professional fees in the 2019 Fiscal Plan was developed, in conjunction with the Government, by analyzing FY2018 and FY2019 run-rate billings based on available information and soliciting input from certain professionals. Fees were benchmarked versus comparable restructuring situations that yield an average professional-fee-to-funded-debt ratio of 2.08% relative to 1.68% projected for the Commonwealth (*Exhibit 20*). In total, for the period from FY2018 to FY2024, the restructuring-related expenditures projection in the 2020 Fiscal Plan continues to be ~$1.1 billion (without change from the 2019 Fiscal Plan), however, uncertainty stemming from the series of recent natural disasters and ongoing COVID-19 pandemic have drawn out the restructuring process longer than anticipated. Separately, the Oversight Board's operating costs will remain at $58 million per year from FY2020 to FY2026 (as opposed to $75 million per year in the 2019 Fiscal Plan).

EXHIBIT 20: PROJECTED PROFESSIONAL FEES RELATIVE TO OTHER MAJOR RESTRUCTURINGS

Professional fees for restructuring

	Date filed	Outstanding debt, $	Total fees and expenses, $	Fees to funded debt, %
City of Detroit, Michigan	Jul. 2013	6,400,000,000[1]	177,910,000	2.8
Residential Capital, LLC	May. 2012	15,000,000,000	409,321,308	2.7
Sabine Oil & Gas Corp.	Jul. 2015	2,800,000,000	78,553,223	2.8
Caesars Entertainment Operating Company	Jan. 2015	18,000,000,000	258,278,005	1.4
Lehman Brothers Holdings Inc.	Sep. 2008	613,000,000,000	956,957,469	0.2
Lyondell Chemical Company	Jan. 2009	22,000,000,000	205,932,292	0.9
American Airlines	Nov. 2011	11,000,000,000	391,637,858	3.6
Washington Mutual, Inc.	Sep. 2008	8,000,000,000	271,085,213	3.4
Edison Mission Energy	Dec. 2012	5,000,000,000	96,244,628	1.9
Energy Future Holdings Corp.	Apr. 2014	40,000,000,000	450,110,233	1.1
Puerto Rico	**2017**	**64,000,000,000**	**1,075,000,000**	**1.7**

Summary Statistics

Avg.	2.08%
Max	3.56%
Min	0.16%
Med	2.33%

Puerto Rico involves added complexity as the largest public sector restructuring in the history of the United States

1 Excludes pensions and other retirement liabilities

Emergency reserve: The Commonwealth must build up an emergency reserve of $1.3 billion, or ~2.0% of FY2018 GNP, by reserving $130 million per year for 10 years, which started in FY2019. The methodology supporting this reserve is informed by guidance provided

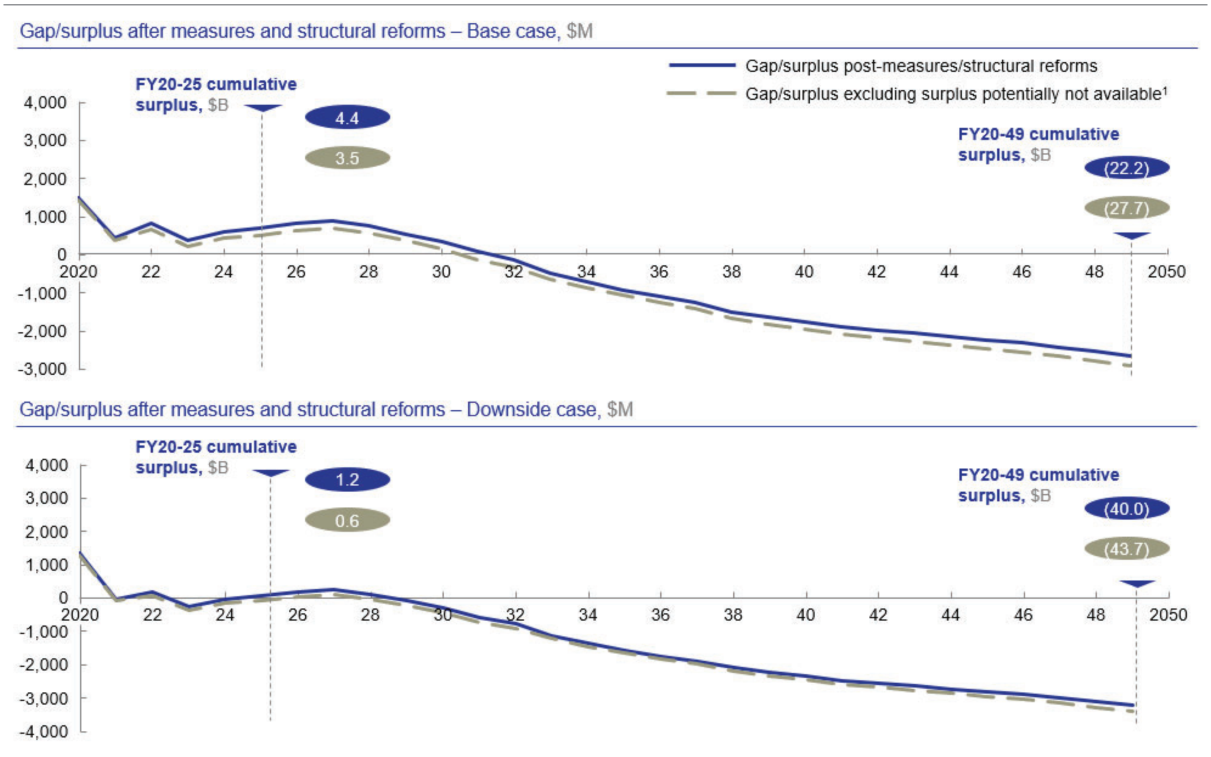
to other Caribbean islands by the International Monetary Fund in defining an adequate emergency reserve (2-4% of GNP, accumulated at 0.5% per year).[28] Restrictions on the use of this fund must ensure that it is a true emergency reserve.

For each of the gross-up revenue items included in *Section 5.1.5* and *Section 5.1.6*, an equivalent expenditure is included in the baseline expense forecast.

5.3 Surplus potentially not available for Commonwealth

The 2020 Fiscal Plan financial projections show the surplus generated by all entities covered by the Commonwealth Fiscal Plan. However, some of the surplus is generated by Commonwealth public corporations, and the Commonwealth's ability to access such surplus amounts could be problematical without further legislative action. In particular, the surplus generated by the State Insurance Fund Corporation (SIFC) and the Cardiovascular Center Corporation of Puerto Rico and the Caribbean may be inaccessible. As such, the 2020 Fiscal Plan also represents what the surplus would be if these funds were inaccessible (*Exhibit 21*).

EXHIBIT 21: SURPLUS POTENTIALLY NOT AVAILABLE FOR COMMONWEALTH



1 These surplus amounts are generated by Commonwealth corporations and the Commonwealth's ability to access such surplus amounts could be at risk without further legislative action

Chapter 6. Long-term projections and Debt Sustainability Analysis (DSA)

While the 2020 Fiscal Plan emphasizes actions to be taken in the period from FY2020-FY2025, the Oversight Board's ultimate goal is to put Puerto Rico on a path towards long-term fiscal balance. However, based on current projections, this long-term fiscal balance is not

28 IMF Bahamas Article IV report published March 22, 2018

achieved due to the impacts of COVID-19 and the scale of investment required to combat the effects of the pandemic, as well as the lack of progress to date on structural reform implementation. Nevertheless, long-term projections remain an important component in evaluating the 2020 Fiscal Plan's implementation and in the resulting Debt Sustainability Analysis (DSA). The outcome of the DSA pertains to traditional debt only, and not to other types such as contingent or no-default debt. Given large swings in debt sustainability shown in the sensitivity analysis, the amount of sustainable debt is contingent on several factors. Finally, the debt sustainability analysis should be adjusted going forward to account for new facts when available and errors when proven.

The 2020 Fiscal Plan is a 30-year plan, as any restructuring of the Commonwealth's legacy obligations will not extend beyond 30 years. In addition, longer-term projections involve even further forecasting risk.

6.1 Long-term macroeconomic, revenue, and expenditure projections

While GNP trends are volatile in the short term due to COVID-19, as well as the impact of the hurricanes and earthquakes, after FY2025 real GNP growth is negative and gradually declines as disaster relief funding drops off considerably and structural reform growth rates are muted. Nominal growth is 1.0-2.0%. The population is estimated to steadily decline at an average rate of ~1.1% annually, largely due to declining fertility rates. Inflation settles at a long-term run-rate of 1.4-1.9% as it is expected to gradually converge to mainland forecasts.

Most revenues are projected to grow with nominal GNP in the long term.[29] This includes SUT, corporate income tax, personal income tax, non-resident withholding not paid by Act 154 entities and most General Fund revenues. Exceptions include:

- **Alcoholic beverages and cigarette-related tax revenues**, which are expected to grow by inflation and population. This assumption is supported both by relatively constant alcohol consumption in growing economies along with the long-term decline in cigarette consumption both in Puerto Rico and the US mainland.
- **Rum excise on off-shore shipments,** is expected to grow by US mainland population and is partially driven by the statutory waterfall by which rum excise taxes are paid into the General Fund.
- **Non-resident withholding (NRW) and Act 154 revenues,** which will face declines due to US tax reform, supply chain diversification, and patent expirations. This decline had begun during FY2020, with incremental declines forecasted in each year through FY2023 (41.7% cumulative decline versus FY2018 baseline). No further declines are anticipated through FY2027; however, additional losses of Act 154 revenue is expected in FY2028-FY2031, such that FY2031 revenues are projected to be 64.4% below baseline. This leads to a steady state of $859 million in annual Act 154 revenues beginning in FY2031. NRW payments made by Act 154 payers are projected to follow a similar trajectory, though with a shallower decline. After reaching steady state in FY2031, NRW payments are projected at $267 million (42.7% below baseline). NRW revenues not related to Act 154 payers continue to grow with nominal GNP.
- **Independently Forecasted Component Units (IFCU) revenues:** IFCU revenues are projected on a line item basis and grow by the same values as in the short-term projections (largely by nominal GNP, with exceptions for those related to healthcare, population, or other factors). The only IFCU with a different short-term and long-term

29 This methodology is consistent with general IMF forecasting approaches and is intended to capture the overall change in consumption, investment and production within the economy

revenue projection is the State Insurance Fund Corporation, for which the Fiscal Plan projects an increase in revenues related to disaster recovery for FY2020-FY2032, reflecting the short-term increase in construction sector activity.

Federal fund revenues grow based on historical and statutory appropriations. **Medicaid** receives the most significant federal funding. The standard cap for Medicaid matching funds grows by the medical services component of CPI-U, CHIP funding grows proportional to growth of premiums and enrollment. However, several significant sources of federal funding for Medicaid (e.g., ACA, BBA, Further Consolidated Appropriations Act, Families First) are only legislated through the first quarter of FY2022. This creates a "funding cliff" whereby the share of Medicaid funding borne by the Commonwealth increases from $633 million in FY2021 to $2,447 million in FY2023. While additional federal funding for Medicaid may be provided in the future, the 2020 Fiscal Plan model only reflects currently-legislated federal funding amounts. Additional revenue for the Medicaid program comes from municipal intra-governmental transfers, which remain constant, and prescription drug rebates, which grow proportionally to healthcare costs and population.

Just as most revenues grow by GNP, most **expenditures grow by standard inflation** after FY2025. Exceptions include:

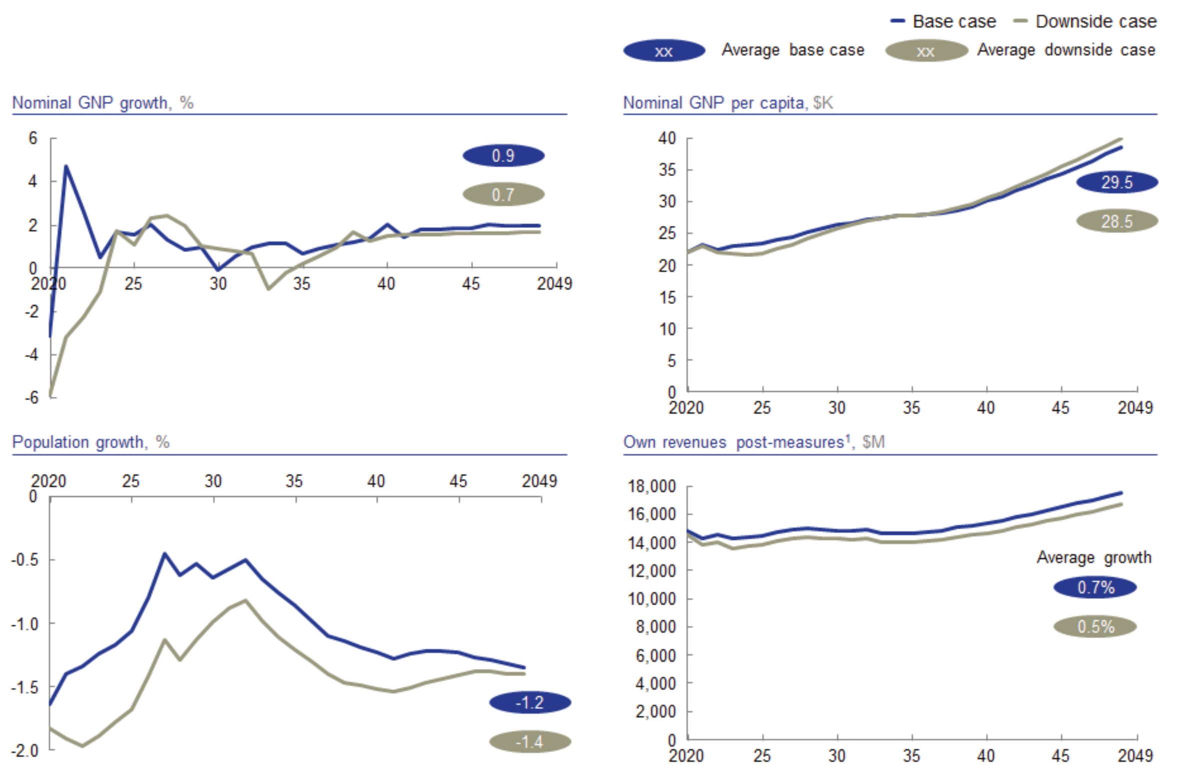
- **Medicaid premiums** grow at a faster pace than standard inflation and are instead grown by a PMPM growth rate and population change. On average, costs per demographic group will increase consistent with historical PR healthcare costs, and in line with external data. However, the latest projections suggest the magnitude of this trend will not be as significant as reflected previous Fiscal Plans. From FY2026-FY2049, the age-mix-adjusted PMPM growth rate is expected to decline from 5.30% in FY2026 to 4.75% in FY2049. This projection is driven by two factors. First, current demographic projections suggest that the population is not aging as fast as previously projected, which causes declines in overall healthcare utilization. Second, general cost efficiency spillovers from the US mainland are expected to exert downward pressure on PMPMs. In the near-term, PMPM growth is expected to be muted in FY2020 due to lower utilization driven by the COVID-19 pandemic. Social distancing and stay-at-home guidance have lowered utilization of the healthcare system. Between FY2020 and FY2022, the PMPM growth rate is expected to increase from 4.5% to 5.5% as utilization recovers from both the COVID-19 pandemic and persistent impact from Hurricane Maria. Non-premium costs, such as administrative and payroll costs grow by standard inflation in the long-term**.**
- **Capital expenditures** are anticipated to rise to 1.9% of GNP (in line with the mainland average) by FY2038, increasing the annual Commonwealth average to ~$650 million over FY2038-FY2049, as Puerto Rico must sustain a higher level of maintenance and rely on its own funding for capital investments (rather than disaster relief funding). **Cost match for disaster-related federal funding** increases to an average of ~$116 million from FY2026 to FY2032, as the Commonwealth pays the entirety of the cost match during that period. The Commonwealth is not responsible for the portion of funds allocated to instrumentalities (e.g., PREPA, PRASA, HTA).
- **Independently Forecasted Component Units (IFCU) expenditures** are forecasted on a line item basis. Most grow with standard Puerto Rico inflation with some exceptions, such as healthcare- or claims-related expenditures. Over the long-term, the expenses of healthcare-related IFCUs (e.g., ASEM, Cardio) are projected to grow faster than revenues, creating a deficit. This Fiscal Plan assumes deficits related to healthcare will be funded by the Commonwealth.

Fiscal measures grow by their relevant macroeconomic indicator (e.g., revenues by nominal Puerto Rican GNP, expenditures by Puerto Rican inflation, healthcare measure by health inflation and population).

A downside scenario based on COVID-19 has been included in this 2020 Fiscal Plan given that the pandemic has created significant uncertainty in near-term financial projections. As such, a downside scenario is presented to showcase the potential trajectory of the Island in the case where the spread of the virus is greater and/or the economic impact is more severe than anticipated in the base case. The downside scenario fundamentally alters the Island's economic condition and therefore impacts long-term projections.

The long-term macroeconomic projections for both the base case and downside case show trends as below (*Exhibit 22, Exhibit 23, Exhibit 24,* and *Exhibit 25*).

EXHIBIT 22: 30-YEAR FINANCIAL PROJECTIONS



1 Own revenues includes all Commonwealth-collected revenues and excludes all federal transfers and gross up revenues; includes impact of COFINA settlement

EXHIBIT 23: LONG-TERM FISCAL PLAN PROJECTIONS POST-MEASURES AND STRUCTURAL REFORMS (BASE CASE)

Financial projection detail post-measures and structural reforms, units as labeled

Projection	FY2025	FY2030	FY2035	FY2040	FY2045	FY2049
Population, thousands	2,813	2,701	2,590	2,427	2,268	2,152
Population growth rate, %	(1.3%)	(0.8%)	(1.1%)	(1.4%)	(1.3%)	(1.3%)
Real GNP growth, %	**(0.1%)**	**(0.5%)**	**(1.2%)**	**(0.4%)**	**(0.3%)**	**(0.2%)**
Nominal GNP, $M	**69,544**	**75,679**	**76,292**	**80,954**	**87,465**	**93,269**
Nominal GNP per capita, $	24,720	28,023	29,453	33,353	38,568	43,349
Nominal GNP per capita growth, %	2.4%	1.7%	1.3%	2.9%	2.9%	3.0%
Inflation, %	**1.2%**	**1.5%**	**1.5%**	**1.9%**	**1.9%**	**1.9%**
Disaster funding, $M	5,843	3,874	-	-	-	-
Revenues[1], $M	**19,724**	**20,654**	**20,941**	**22,192**	**23,970**	**25,589**
Commonwealth revenues	14,604	15,119	14,944	15,652	16,796	17,847
Federal transfers	5,120	5,535	5,997	6,540	7,175	7,742
Expenditures[1], $M	**(19,043)**	**(20,307)**	**(21,872)**	**(23,977)**	**(26,226)**	**(28,250)**
Commonwealth-funded expenditures	(14,035)	(14,870)	(15,956)	(17,481)	(19,049)	(20,466)
Federally-funded expenditures	(5,007)	(5,437)	(5,916)	(6,497)	(7,177)	(7,784)
Gap / surplus, $M	**681**	**347**	**(931)**	**(1,785)**	**(2,256)**	**(2,661)**
Contractual debt service payments[2]	(1,697)	(1,904)	(1,653)	(1,049)	(163)	(50)
Net gap / surplus, $M	**(1,016)**	**(1,557)**	**(2,584)**	**(2,834)**	**(2,419)**	**(2,711)**
Surplus potentially not available[3], $M	172	220	152	176	219	256

1 Revenues and expenditures excluding gross up adjustments
2 Debt service based on prepetition contractual debt obligations. Presented for illustrative purposes only and does not represent anticipated future payments on restructured debt. Includes GO, PBA, CCDA, PRIFA, PFC, ERS, PRIDCO. The 2020 Fiscal Plan does not assume any predetermined outcome of ongoing litigation with respect to GO bonds
3 These surplus amounts are generated by Commonwealth corporations and the Commonwealth's ability to access such surplus amounts could be at risk without further legislative action

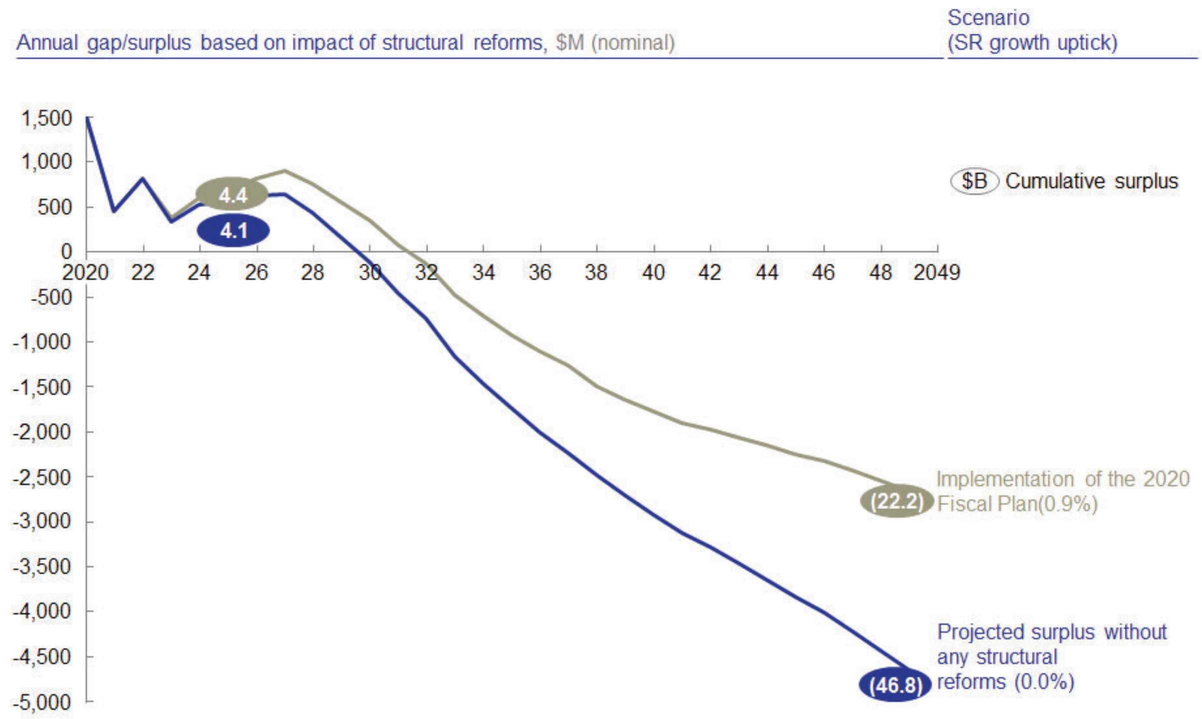
EXHIBIT 24: LONG-TERM FISCAL PLAN PROJECTIONS POST-MEASURES AND STRUCTURAL REFORMS (DOWNSIDE CASE)

Financial projection detail post-measures and structural reforms, units as labeled

Projection	FY2025	FY2030	FY2035	FY2040	FY2045	FY2049
Population, thousands	2,761	2,601	2,473	2,300	2,136	2,020
Population growth rate, %	(1.7%)	(1.0%)	(1.2%)	(1.5%)	(1.4%)	(1.4%)
Real GNP growth, %	**(0.1%)**	**(0.6%)**	**(1.3%)**	**(0.4%)**	**(0.3%)**	**(0.2%)**
Nominal GNP, $M	**64,220**	**69,895**	**70,188**	**74,443**	**80,422**	**85,761**
Nominal GNP per capita, $	23,256	26,877	28,383	32,361	37,651	42,464
Nominal GNP per capita growth, %	2.8%	1.9%	1.4%	3.1%	3.0%	3.1%
Inflation, %	**1.2%**	**1.5%**	**1.5%**	**1.9%**	**1.9%**	**1.9%**
Disaster funding, $M	5,843	3,874	-	-	-	-
Revenues[1], $M	**18,923**	**19,740**	**19,955**	**21,125**	**22,803**	**24,339**
Commonwealth revenues	13,827	14,258	14,027	14,669	15,727	16,706
Federal transfers	5,096	5,482	5,928	6,456	7,076	7,634
Expenditures[1], $M	**(18,879)**	**(20,040)**	**(21,525)**	**(23,493)**	**(25,635)**	**(27,569)**
Commonwealth-funded expenditures	(13,884)	(14,631)	(15,646)	(17,042)	(18,513)	(19,846)
Federally-funded expenditures	(4,995)	(5,410)	(5,879)	(6,451)	(7,122)	(7,723)
Gap / surplus, $M	**43**	**(300)**	**(1,571)**	**(2,368)**	**(2,832)**	**(3,230)**
Contractual debt service payments[2]	(1,697)	(1,904)	(1,653)	(1,049)	(163)	(50)
Net gap / surplus, $M	**(1,654)**	**(2,205)**	**(3,223)**	**(3,417)**	**(2,994)**	**(3,279)**
Surplus potentially not available[3], $M	118	160	89	108	147	180

1 Revenues and expenditures excluding gross up adjustments
2 Debt service based on prepetition contractual debt obligations. Presented for illustrative purposes only & does not represent anticipated future payments on restructured debt. Includes GO, PBA, CCDA, PRIFA, PFC, ERS, PRIDCO. The 2020 Fiscal Plan does not assume any predetermined outcome of ongoing litigation with respect to GO bonds
3 These surplus amounts are generated by Commonwealth corporations and the Commonwealth's ability to access such surplus amounts could be at risk without further legislative action

EXHIBIT 25: ANNUAL GAP/SURPLUS BASED ON IMPACT OF STRUCTURAL REFORMS



The 2020 Fiscal Plan shows minor short-term surpluses driven by significant federal relief as well as fiscal measures and structural reforms. Long-term deficits are driven by healthcare costs that outpace GNP growth, lack of robust structural reforms, phase out of disaster relief funding, and declining Act 154 revenues.

While the 2020 Fiscal Plan projects deficits from FY2032 onward, the Government will be required to take additional measures that go beyond the five-year framework of this 2020 Fiscal Plan as the Puerto Rico Constitution requires the Government to operate within a framework of fiscal balance. Accordingly, what follows are a set of options that future governments can consider in order to obtain fiscal balance in the out-years. Some of these reforms – which would reduce deficits and therefore make funds available for a variety of potential uses, including investment in the people of Puerto Rico – have been proposed by the Oversight Board, but have not been adopted, and the Oversight Board cannot implement them on its own.

- **Private sector labor reform,** generating an additional 0.50% GNP growth over two years, by repealing Law 80, reducing paid leave, and eliminating the Christmas Bonus. Key reforms could require incentives, such as wage subsidies for low-income workers and training programs to address identifiable skills gaps. The reform is projected to increase the 30-year surplus by ~$10 billion if implemented after 10 years (FY2030) and by ~$3 billion if implemented within 20 years (FY2040).

- **Ease of Doing Business reform,** generating an additional 0.15% GNP growth, based on instituting Trading Across Borders reform to improve customs processes and congestion and repealing restrictive laws (e.g., Laws 21 and 75 dictating terms for terminating commercial supplier relationships). The 30-year surplus is projected to increase by ~$3 billion if implemented after 10 years (FY2030) and by ~$850 million if implementation lags by 20 years (FY2040).

- **Overhaul of the tax system of Puerto Rico** to stimulate growth, requiring short-term investment (lower revenues in short-term) for long-term growth benefits up to 0.5% spread over five years. The reform is projected to increase the 30-year surplus by ~$9

billion if implemented after 10 years (FY2030) and by ~$2 billion if implementation lags by 20 years (FY2040).

- **Imposing a cap on total healthcare expenditure growth** at 2% above standard inflation is projected to result in savings of ~$14 billion by FY2049 if implemented in FY2030 and ~$3 billion if implemented in FY2040.
- **Securing additional permanent federal funding for Medicaid** of ~$1 billion per year (and growing with inflation) is projected to increase the 30-year surplus by ~$27 billion if begun in FY2030 and ~$11 billion if begun in FY2040.

Risks to the long-term projections in the 2020 Fiscal Plan. While the 2020 Fiscal Plan projects that ~$8 billion surplus will be generated through FY2020-2031, there are several variables that have a material impact on the long-term financial projections in the 2020 Fiscal Plan. The impacts of COVID-19 remain highly uncertain at this stage and could prove to be longer-lasting and greater than anticipated. Moreover, revenues could be compromised through lower growth generated by delayed or not implemented structural reforms, lower than expected federal funding, and/or less efficient spending on capital than projected. Both revenues and expenditures could be impacted by demographic shifts not yet seen on the Island, and in the areas of government expenditures:

- **Lack of implementation of healthcare reform measures** could affect the long-term projections of the 2020 Fiscal Plan. If healthcare reform measures are not implemented starting in FY2021, the surplus would decrease by $14 billion.
- **Implementation risk of agency efficiency measures** also exists. For example, if only 50% of the projected run rate agency efficiency measures are achieved, the 30-year surplus would decrease by $21 billion. Similarly, if only 75% of the projected run rate agency efficiency measures are achieved, the 30-year surplus would decrease by $11 billion.

6.2 Debt Sustainability Analysis (DSA)

The DSA is intended to provide a framework for assessing the long-term capacity of the Government to pay debt service on its bonded debt. Debt levels post-restructuring need to be sustainable over the long-term and consistent with both a minimal risk of default on the restructured debt and a recovery of market access for future new money borrowings for ongoing infrastructure investment. The analysis begins with the 2020 Fiscal Plan and is then informed by the debt sustained by the most appropriate peer group against which to benchmark Puerto Rico. The DSA then applies rating agency metrics for that benchmark group to Puerto Rico to arrive at an assessment of what debt levels are sustainable in light of long-term projections and the peer metrics. Net tax-supported debt is defined as debt payable from statewide taxes and other general resources, net of obligations that are self-supporting from pledged sources other than state taxes or operating resources (such as utility or local government revenues). Prior to the enactment of PROMESA, Puerto Rico had approximately $45 billion in tax-supported debt with a declining economy and no guarantee of sustained federal funding. Post-COFINA restructuring, Puerto Rico net tax supported debt outstanding was approximately $41 billion, comprised of GO, PBA, COFINA, PRIFA, HTA, CCDA, ERS, Public Finance Corporation (PFC), and other intergovernmental loans. Net of the restructured COFINA debt, Puerto Rico's other net tax-supported debt outstanding totals approximately $28 billion.

The 2020 Fiscal Plan's DSA has been fundamentally re-evaluated and adjusted to reflect accurately Puerto Rico's post-COVID-19 economic reality. The contours of the post-COVID-19 economy are uncertain but have already caused a significant global economic recession and could have both positive and negative effects on various industries vital to Puerto Rico's local

EXHIBIT 110: MEDICAID REFORM REQUIRED IMPLEMENTATION ACTION

Required implementation action	Deadline
▪ Incorporate language requiring participation in DRG-based payment model in MCO contract	▪ May 2020
▪ Define key performance indicators and savings target measures for Medicaid program integrity initiatives (e.g., fraud, waste, and abuse reduction, enrollment verification)	▪ June 2020
▪ Complete assessment for the need for additional third party vendors to develop an Asset Verification System and analytics for fraud, waste, and abuse reduction and enrollment verification	▪ June 2020
▪ Pilot DRG-based payment model and revise design based on performance	▪ July 2020
▪ Identify and design additional value-based incentives (e.g., direct pay-for-performance quality bonuses) for inclusion in future MCO agreements, including timeline and plan for implementation	▪ December 2020
▪ Develop plan to incorporate Medicaid program integrity key performance indicators and savings targets into future MCO contracts, including design for associated incentives and penalties	▪ December 2020
▪ Complete Phase II of PRMMIS development and migrate financial and enrollment processes to the platform	▪ June 2021
▪ Draft plans to meet PERM and MEQC requirements and receive CMS approval	▪ June 2021
▪ Launch DRG-based payment model	▪ July 2021

Chapter 16. Tax compliance and fees enhancement

16.1 Current state and future vision for tax environment

Puerto Rico's current tax system suffers from its structural complexity, instability, internal inconsistency, inefficient administration, and inadequate enforcement. There have been at least 11 major revisions to Puerto Rico's tax code since 1994, including at least six adjustments since 2013.[256] This has allowed for persistent problems with non-compliance, worsened by a lack of an integrated approach to addressing non-compliance. Top marginal tax rates are high relative to US federal and state taxes. Much of the Government's revenue is highly concentrated in collections from a handful of multi-national corporations. The Government has also issued an assortment of credits, deductions, and incentives that add to the system's complexity and further erode the tax base. Furthermore, audit and enforcement activity in recent years has been limited, which creates risks of increased levels of non-compliance.

Due to its compliance and collections issues, the Commonwealth has not been able to collect as many revenues from taxes as it should each year.

In response to these challenges, the Government has taken actions to improve tax compliance. It has taken steps to improve information reporting to better detect under-reporting of income and over-usage of deductions and credits, notably through recent changes to information reporting requirements included in Act 257-2018. These changes create greater interdependencies among taxpayers and the information they are obligated to report, which is expected to enable greater oversight and verification of the information being reported to the

[256] Reforms include: Act 40-2013, the "Tax Burden Redistribution and Adjustment Act;" Act 120-2014, the "Small and Medium Business Job Generation and Retention Act;" Act 72-2015, the "Adjustments to the Internal Revenue Code of 2011;" Administrative Orders 2017-01 and 2017-05; and Act 257-2018, the "2018 Puerto Rico Tax Reform Act."

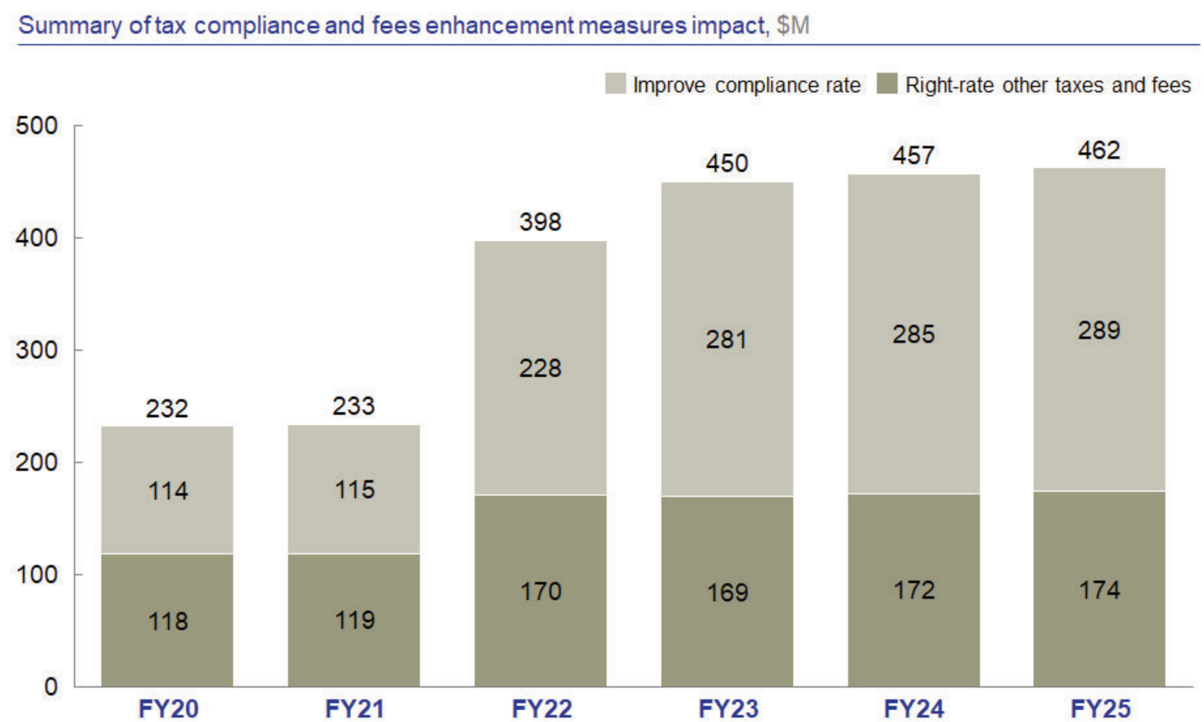
Government. Enhanced usage of data can help Hacienda better isolate risk and focus its compliance and enforcement resources. It is driving improvements in its culture and organization to boost enforcement capabilities, and digitizing the process of filing taxes, to lighten the burden of compliance on taxpayers.

With the publication of the first Tax Expenditure Report in September 2019 (see *Section 16.3.1*), policymakers now have the data necessary to review, assess, and adjust the use of individual tax expenditures to ensure that these foregone revenues are leading to positive economic development on the Island.

16.2 Administrative tax initiatives to increase revenue collections

By driving administrative tax reform, the Commonwealth must increase revenues over the amounts implied by baseline economic trends by $2.2 billion over FY2020-2025, as shown below (*Exhibit 111*). To capture impact, measures must be implemented in full by FY2023. The 2020 Fiscal Plan recognizes the substantial economic challenges ahead in FY2021 and therefore does not assume any incremental impact beyond what was already required in FY2020.

EXHIBIT 111: REVENUE MEASURES SUMMARY OF IMPACT



16.2.1 Improve compliance rate

The Government must continue its efforts to achieve a target 5% net uplift in annual revenues due to enhanced compliance by FY2023 across the major tax lines (personal income tax, corporate income tax, and SUT) – inclusive of implementation costs. Such an improvement would be in-line with improvements seen in other tax transformations. This improvement would be relative to a reduced baseline estimate of revenue collections due

to the impacts of COVID-19, and expanded impact would not be expected to resume until FY2022. [257]

Hacienda should continue to take a variety of initiatives that can boost voluntary compliance. The goal should be to reduce the cost of compliance while simultaneously raising the cost of non-compliance, through a combination of an increased likelihood of being caught while not paying taxes owed and more effective and enforceable penalties.[258]

- **Use new systems and processes to identify and remediate non-compliance.** Hacienda has taken steps to make it harder to abuse deductions and credits to avoid tax liability, for example by only allowing taxpayers to claim certain deductions and exemptions if their return is prepared by a certified public accountant following agreed upon procedures.
- **Reduce the complexity of the tax system and process of filing taxes** to make it easier for individuals and businesses to pay their taxes correctly. As detailed further in *Section 10.4*, improving the process of for filing and paying taxes is critical for improving ease of doing business, but it also helps boost voluntary compliance.
- **Improve use of data and analytics to address non-compliance**. Small and medium taxpayers account for a significant share of the unpaid and underpaid taxes, but only a tiny fraction of these taxpayers receive full-scale audits due to the significant time and cost investment needed. While a traditional IRS audit costs an average of $2,278 per case, automated notices or letters can be executed for $52 to $274 per case.[259] Hacienda is receiving increasing filings of information returns that can be used to better identify risk and focus compliance resources. Implementing data-driven, tiered compliance approaches over time will enable Puerto Rico to reach a significantly larger share of nonpayers.
- **Collecting SUT on Internet sales**. Nationally, the percentage of taxpayers voluntarily reporting and paying sales and use taxes on their income tax forms ranges from 0.2% to 10.2%, while nearly 80% of Americans shop online.[260,261] Mainland states have taken steps to improve sales tax collections on online sales through legislation, as well as voluntary agreements with major online retailers.[262] In its 2018 *Wayfair* decision, the US Supreme Court further provided mainland states with parameters under which sales taxes could be levied on out-of-state sellers. Given these trends, the Government should also be working to capture SUT on a much larger share of Internet sales. Hacienda has announced agreements with some online retailers to charge Puerto Rico SUT on Internet sales of goods.[263] With Internet sales growing at ~15% annually, and growth expected to accelerate further as the COVID-19 pandemic makes the internet a critical component of consumer purchasing habits, Internet sales tax presents an even more important opportunity going forward.

The impact from these compliance related activities is projected to phase in over the course of four years. In light of the challenging economic climate anticipated in FY2021, the 2020 Fiscal Plan does not forecast incremental increases in revenue yield until FY2022, though Hacienda will continue to implement its compliance-related initiatives.

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257 Analogous case studies include Panama, Jamaica, and Spain, which saw 1.0 to 2.5 percentage point increases in tax ratio relative to GDP through comprehensive tax overhauls, which included compliance initiatives

258 Xenia Velez presentation to the Oversight Board (Nov. 30, 2017), 3

259 IRS Enforcement Results, TIGTA Filing Season Audit, IRS Taxpayer Advocate, Team Analysis, GAO

260 "Use Tax Collection on Income Tax Returns in Other States" Research Department of Minnesota House of Representatives, April 2015. http://www.house.leg.state.mn.us/hrd/pubs/usetax.pdf

261 Tech Crunch, 2016

262 Voluntary agreements occur when corporations agree through individual negotiations with states to collect and remit sales tax directly to the state

263 Caribbean Business, "Amazon to charge Puerto Rico sales tax"

16.2.2 Right-rate other taxes and fees

Prior to Hurricane Maria, the Government reported that it had already developed a plan to right-rate certain taxes and fees. These original plans, as well as any adjustments mutually agreed upon between the Government and the Oversight Board during implementation of the March 2017 Fiscal Plan, have been largely included in this 2020 Fiscal Plan, except where explicitly noted below.

Despite multiple pieces of enabling legislation, the Government's approach to implementation lacks central accountability, with specific actions and timelines. Progress against these measures has been uneven and the Government must urgently make progress to close the gap.

Gaming tax. Legislation passed in 2017 increased licenses and fees on mechanical and electronic gaming machines to $3,000 from $100. This was originally estimated to generate ~$71 million in incremental revenues.[264] Part of this calculation involved assumptions of improved enforcement, as the Government has previously estimated that it is losing approximately $170 million per year due to illegal machines that are not paying licensing fees. However, when factoring in the potential that a 2,900% increase in taxes on the machines could decrease total revenues from gaming, the Fiscal Plans adjust the required revenues to be approximately $46 million.

Licenses and other fees. 2017 legislation enabled fee increases in miscellaneous categories. Hacienda will determine which exact fees are to be increased to meet these minimum thresholds, achieving an overall revenue increase of ~$57 million per year.[265] Categories are as follows: Charges for services; Fines; Insurance; Licenses; Permits; Rent; Royalties; Stamps; Other.

Tobacco taxes. Legislation was passed in 2017 to increase specific tobacco taxes, including taxes on cigarettes, cigars, rolling tobacco, cigarette paper and tubes, chewing tobacco, snuff, electronic cigarettes, nicotine cartridges, and vaporizers. Accounting for one-time declines in use due to price elasticities after the new law went into place, a ~$52 million per year increase by FY2024 in revenues due to the new taxes is required. In order to give the Government time to focus on a comprehensive implementation approach, the required revenues are delayed until FY2022.[266]

Medical marijuana tax. Legislation has been enacted to tax medical marijuana. Based on an estimated 29,000 patients, the Government expected to collect approximately ~$13 million per year in additional revenue through this initiative.[267]

Airbnb Tax. Legislation has been enacted to apply a 7% hotel room tax to Airbnb rentals, resulting in a projected annual revenue increase of ~$3.5 million This revenue stream will be substantially impacted by the reduction in demand due to COVID-19, recovering only as the tourism sector rebounds.

16.3 Implementation and enforcement of revenue measures

The following implementation plan details the continuation of the Commonwealth's efforts to increase compliance and imposes further details on key milestones in the process to right-rate taxes and fees. To date, Hacienda has made important progress towards deploying SURI, its integrated tax system. Phases 1 and 2 of SURI have been rolled out for SUT, excise taxes and

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264 Based on an assumption of 23,000 gaming machines on which Hacienda is able to collect fees (http://www.oslpr.org/2017-2020/leyes/pdf/ley-108-23-Ago-2017.pdf)

265 Assumes an 80% capture rate on the $73M potential to account for potential elasticities in demand based on fee increases

266 Based on an 18% decline, per Hacienda (April 5, 2017 calculations)

267 $15M projected receipts, minus $1.5M of dedicated revenues for the medical marijuana council established in 2017-Act 42 and controlled substances monitoring in 2017-Act 70

license fees and will likely have a beneficial impact on FY2020 tax compliance. Phase III has been rolled out in February 2020 for Individual Income Tax and Corporate Income Tax, with likely impact starting in FY2021. The benefits of the SURI platform include improved filing and payment capabilities, digital workflows, and integration of previously-disparate data sources. These features are expected to, over time, improve Hacienda's ability to serve taxpayers and enhance its compliance capabilities. Hacienda has also begun to make use of new information reporting and withholding requirements to limit the structural opportunities for non-compliance (e.g., through the use of alternative minimum taxes and limitations of deductions where there is no corroborating information reporting). On right-rating of taxes and fees, the progress has been mixed, with certain smaller revenue streams such as collection of tax on Airbnb rentals meeting initial expectations, with others like increases in tobacco revenues and gaming fees under-performing relative to Fiscal Plan requirements. Hacienda must comprehensively assess progress against these categories of revenue enhancement and develop action plans to mitigate future under-performance.

16.3.1 Creation of a tax expenditure report and regular reporting

In order to provide a critical element of fiscal responsibility and transparency, the Government must regularly produce a tax expenditure report, which will include a comprehensive list of revenue losses attributable to provisions of the Puerto Rican tax code that deviate from the tax structures benchmark law. Having a clear and accurate understanding of what the Government spends through tax expenditures is critical to ensuring the expenditures are continuing to contribute to economic growth and opportunity.[268]

In response to the 2019 Fiscal Plan requirements, the Government published its inaugural Tax Expenditure Report in September 2019 for tax expenditures associated with tax year 2017. For the first time in Puerto Rico's history, taxpayers and the Government now have better visibility into the full scope of tax expenditures being offered, together with a description and approximate cost of each expenditure.

Additional revisions are required to tax expenditure reporting. For future iterations, the Tax Expenditure Report must include the cost of each tax expenditure for the current year and at least the prior two years. The report must also forecast the expected revenue collections and losses for at least the next five years from the date the report is produced. The forecast of revenue losses must include a comprehensive inventory of all tax credits, cash grants, deductions, exemptions, preferential tax rate, tax liability deferral and any other tax incentives where amounts allocated can materially impact the Commonwealth's financials.

16.3.2 Tax incentives code reform

The current tax incentives code structure has high fiscal costs – in excess of $400 million – but does not provide enough visibility to allow for clear tracking of these tax concessions and the returns they generate for Puerto Rico's economic growth. Past studies, based on limited available economic data, have indicated that while some tax incentives led to positive returns on investment, many others do not yield similar results.

That is what led the Commonwealth to enact Act 60-2019 (the "Puerto Rico Tax Incentives Code" or "Incentives Code"), which amended the tax incentives code and adopted a new legal and administrative framework to normalize the way in which new incentives are created, approved, processed, and monitored. Existing incentive laws were repealed and replaced by similar incentives in Act 60-2019.

To evaluate the fiscal benefit from each incentive, the legislation uses a Return on Investment ("ROI") approach combined with an assessment of fiscal multipliers to prioritize high value-

[268] Tax Policy Center, Urban Institute & Brookings Institution, "State Income Tax Expenditures"

added incentives relative to those that do not generate sufficient economic return. The legislation, however, does not include explicit caps on, reductions to, or the elimination of any specific incentives. Rather, the purpose of the Incentives Code is to measure the ROI of tax and economic incentives by grouping them under a transparent and uniform code.

Through the Incentives Code, the term, rate, and characteristics of incentives offered are harmonized across industries and credits. The Incentives Code also creates a centralized Incentives Office for Businesses in Puerto Rico at DDEC and establishes an Incentives Concession Portal to centralize, standardize, and streamline the processes related to the application and approval of decrees, cash grants, tax credits, subsidies, and other incentives.

Act 60-2019 also required the public disclosure of beneficiaries of certain tax expenditures. In accordance with that requirement, DDEC disclosed (on January 30, 2020) that 8,364 companies and individuals received certain tax incentives. The online database offers the name of the grantee, the type of benefit, and the decree's issue date. At the moment, DDEC released the relevant information for recipients that receive benefits from the following Acts: Act 14-2017 (Physician Retention); Act 20-2012 (Exportation of Services); Act 22-2012 (Investor Relocation); Act 273-2012 (International Financial Center Regulatory Act); and Act 27-2011 (Film Production). DDEC subsequently released additional data on February 11, 2020, disclosing recipients of the following tax expenditures: Act 73-2008 (Economic Incentives for the Development of Puerto Rico Act); and Act 83-2010 (Puerto Rico Green Energy Incentives Act).

Many provisions of Act 60-2019 require the drafting and approval of regulations prior to their implementation.[269]

The lack of transparency and high cost of these tax concessions warrant additional reform in the tax incentives code. In addition to public disclosure of the amount and type of tax incentives awarded as part of the tax expenditure report, a value-for-money assessment for these tax concessions needs to be conducted to increase the rate of return on investment to Puerto Rico. Subsequently, based on the findings of this formalized assessment and explicit annual budget, the Government should implement a reform on the existing tax incentives code, to better align the tax concessions awards to the growth strategy of Puerto Rico.

16.3.3 Principle of Revenue Neutrality

Puerto Rico needs to drive toward more formality and increased compliance within the tax base, but it cannot lose revenues in the process. Therefore, any tax reform or tax law initiatives that the Government undertakes or pursues during a year within the 2020 Fiscal Plan period must be revenue neutral, that is, all tax reductions must be accompanied by specific, offsetting revenue measures of the same amount that are identified in the enabling legislation. Each tax measure must also include confidence building elements, such as behavioral adjustments and reasonable capture rates. To ensure revenue neutrality, the implementation of any tax law initiatives must occur sequentially, with the Government ensuring that initiatives are paid for before rates are reduced. Enforcement mechanisms must also be part of any tax initiative package to prevent a scenario where tax reductions are not accompanied by sufficient offsetting revenue measures identified in the enabling legislation.

16.3.4 Required implementation actions

To achieve the 2020 Fiscal Plan revenue measures, certain action items must be implemented according to the schedule described in *Exhibit 112*.

269 Pursuant to PROMESA section 204(b)(4) and the Oversight Board's policy with respect thereto, proposed rules, regulations, administrative orders and executive orders covered by said policy, including all regulations under Act 60-2019, must be submitted to the Oversight Board before being issued to ensure compliance with the certified Commonwealth Fiscal Plan.

EXHIBIT 112: REVENUE MEASURES SUMMARY OF IMPACT

Required implementation action	Deadline
▪ Finalize the integrated plan for the next phase of compliance improvement across the major tax types and assess the resources needed to support the activities identified	▪ December 2020
▪ Develop resource plan to implement next phase (personnel, IT, other support) as needed to drive progress against key initiatives	▪ March 2021
▪ Implement process to estimate the impact of compliance efforts on revenue collections to inform future program priorities	▪ June 2021

Chapter 17. Reduction in appropriations to UPR

17.1 Current state and vision

The central Government provides a range of appropriations to three main groups of recipients: The University of Puerto Rico (UPR), Puerto Rico's 78 municipalities, and "other" recipients (typically private industry or non-profit institutions).

The University of Puerto Rico, founded in 1903, is Puerto Rico's largest and main university system. Its mission is to serve the people of Puerto Rico, contribute to the development and enjoyment of the fundamental values of Puerto Rican culture, and uphold the ideals of a democratic society. To advance its mission, UPR strives to provide high-quality education and create new knowledge in the Arts, Sciences, and Technology. UPR has a history of academic excellence, with 694 degree-granting academic and professional certification programs, including six first level professional degree programs and 34 PhD programs. The university system is also an important center of research; for example, the Rio Piedras campus is classified as a high research activity university by the Carnegie Foundation (one of only 335 US universities to receive such a designation) and there are 79 separate research centers across the university system. UPR also plays a critical role in providing avenues for social and economic advancement, with 68% of students receiving Pell grants.[270]

In FY2018, UPR was 67% subsidized (~$678 million in annual appropriations) by state and local funds, compared to an average 25% state and local subsidization for US public universities.[271] In FY2018, UPR's undergraduate tuition was less than one-third of the US average for public universities, even after adjusting for per-capita income, and more than 40% below the average tuition of private universities on the Island.[272] Yet, during the past decade, UPR has seen a 24% enrollment decline (13% since FY2018) across both graduate and undergraduate populations. Moreover, UPR consists of 11 independent campuses with minimal shared services or administrative consolidation. As a result, UPR has grown reliant on the significant subsidies from the Commonwealth, and has made slow progress in addressing declining enrollment, diversifying its revenues, rationalizing its tuition and scholarship systems, renewing and maintaining its infrastructure, addressing operational

270 UPR 2012-2017 Strategic Plan

271 UPR, IPEDs 2016, College Board

272 Represents the average across the Ana G. Mendez University system, Inter-American University, Sacred Heart University, and Polytechnic University for SY18-19.

EXHIBIT 120: MAP OF MUNICIPALITIES PARTICIPATING IN THE OVERSIGHT BOARD'S PILOT PROGRAM

18.3.3 Property tax reform

CRIM plays an important role in supporting Puerto Rico's municipalities in their economic and social development by ensuring an efficient process to collect and distribute real and personal property tax revenues, which are an important revenue stream for municipalities. In FY2020, property taxes represented approximately 29% of the aggregate general fund budget for municipalities.

Historically, the taxable value of real and personal property has been significantly reduced by tax exemptions and exonerations. In FY2019 for example, more than 50% of the real and personal property tax base was eliminated through these exemptions and exonerations. In addition, there is a backlog of real properties not yet appraised, and collection rates for current year real property tax billings are well below comparable jurisdictions at approximately 68%. This has resulted in a large accounts receivable balance. Therefore, it is essential that CRIM seize all opportunities to maximize property tax collections to improve municipal revenues.

In partnership with the municipalities, CRIM must implement measures to capture unrealized property tax revenues by increasing tax compliance and improving overall collection rates. CRIM must also update the tax roll to include the tens of thousands of non-registered properties and home improvements. Additionally, CRIM must undergo an operational transformation centered around the replacement of outdated and inefficient applications and hardware and the establishment of a data-driven culture. Based on implementation planning discussions with CRIM management, CRIM estimates these initiatives could produce:

- $70 million of additional annual revenue from raising real property tax compliance from 68% to 76%;
- $118 million of additional annual revenue from registering properties and home improvements not on the tax roll;
- $400 million of one-time revenue from selling the accounts receivable portfolio; and

Additional revenue-enhancing measures are identified in CRIM's Fiscal Plan.

Chapter 23. Macroeconomic projections

23.1 Economic and demographic trends

EXHIBIT 133: MACROECONOMIC TRENDS

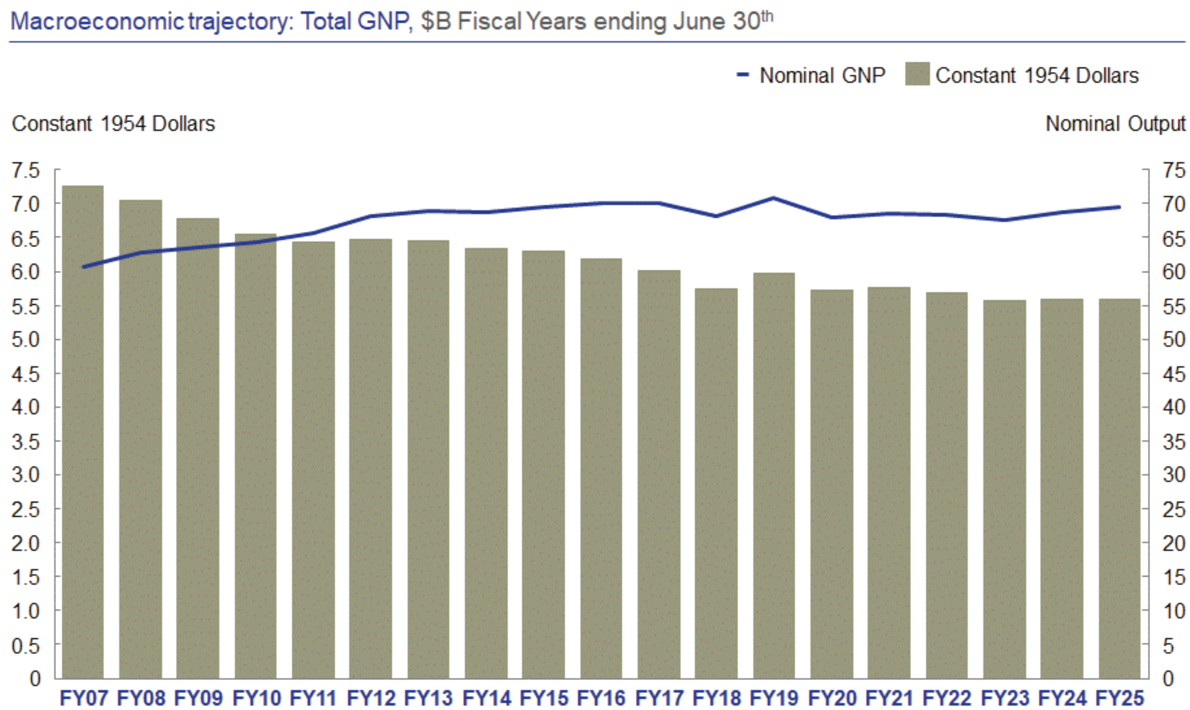


EXHIBIT 134: POPULATION TREND

Historical and projected population, millions of people

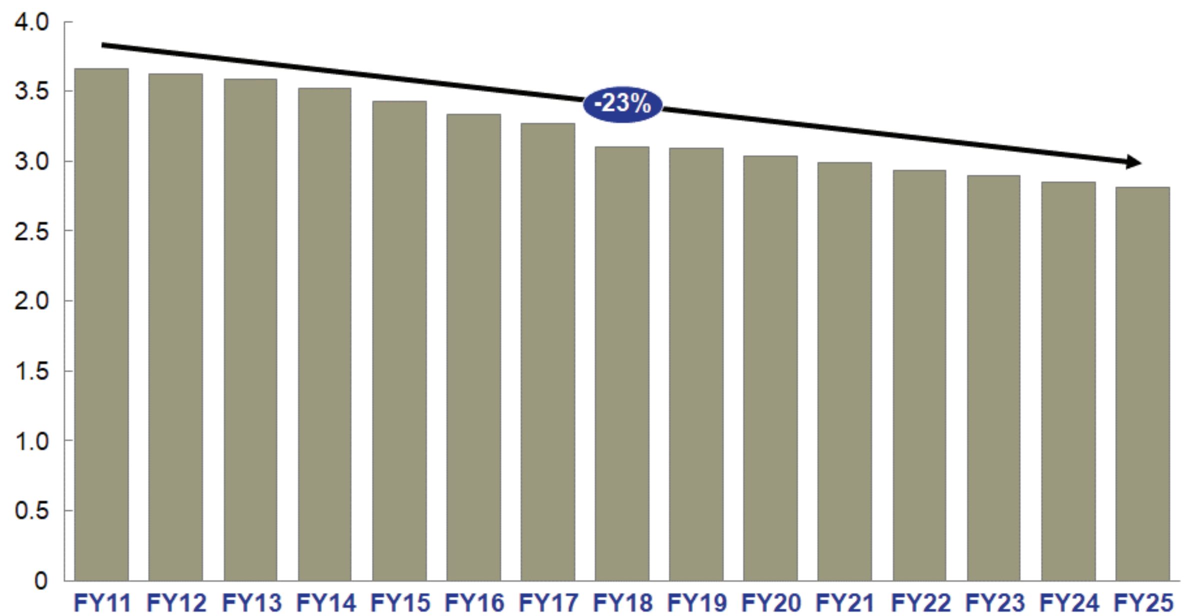
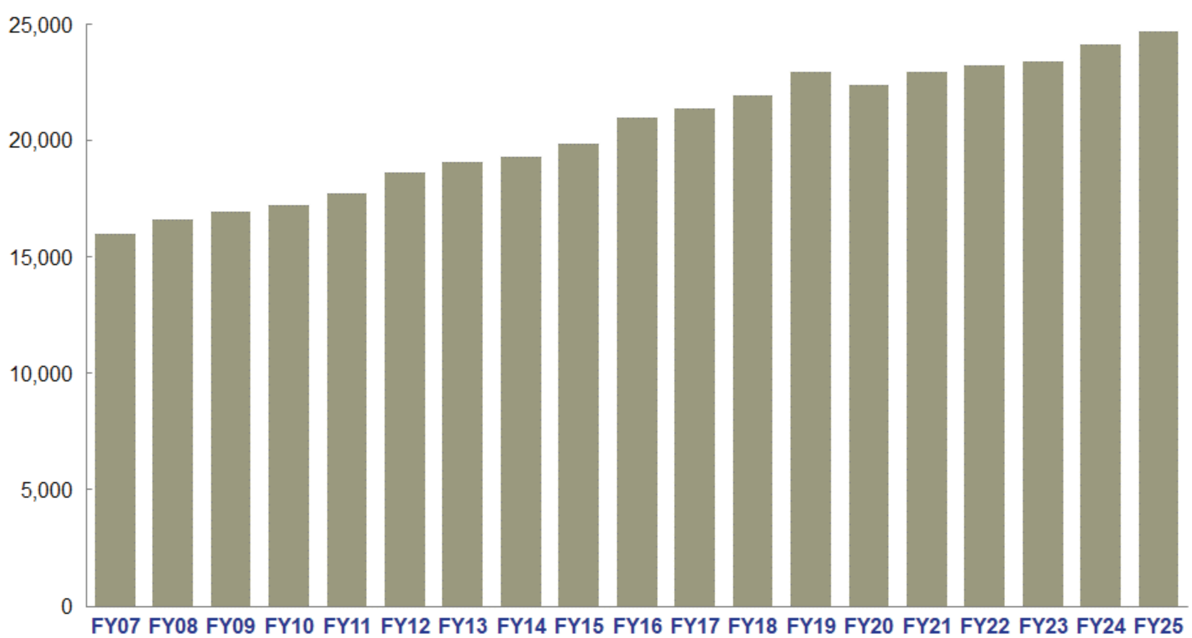


EXHIBIT 135: PER CAPITA GNP TREND

Historical and projected GNP per capita, $ USD



Chapter 24. Financial projections

24.1 Detailed financial projections

EXHIBIT 136: MACROECONOMIC OVERVIEW OF PUERTO RICO, FY2020-FY2025

Six-year financial projections post-measures and structural reforms, units as labeled, SR = structural reforms

Line item	FY2020	FY2021	FY2022	FY2023	FY2024	FY2025	FY2020-25
Population, #	3,033	2,984	2,936	2,891	2,851	2,813	
Population growth rate, %	(1.8%)	(1.6%)	(1.6%)	(1.5%)	(1.4%)	(1.3%)	
Real GNP growth, %	**(4.0%)**	**0.5%**	**(1.5%)**	**(1.9%)**	**0.5%**	**(0.1%)**	
Nominal GNP, $M	**68,079**	**70,920**	**68,025**	**68,557**	**68,273**	**67,670**	
Nominal GNP per capita, $	22,428	22,975	23,252	23,404	24,133	24,720	
Nominal GNP per capita growth, %	(2.4%)	2.4%	1.2%	0.7%	3.1%	2.4%	
Inflation, %	**(0.1%)**	**0.3%**	**1.1%**	**1.0%**	**1.1%**	**1.2%**	
Disaster funding, $M	4,483	4,581	5,645	5,561	5,642	5,596	31,509
Revenues[1], $M	**21,571**	**21,133**	**20,174**	**19,324**	**19,552**	**19,724**	**121,477**
Commonwealth revenues	14,716	14,348	14,703	14,328	14,496	14,604	87,195
Federal transfers	6,855	6,785	5,471	4,995	5,056	5,120	34,282
Expenditures[1], $M	**(20,076)**	**(20,694)**	**(19,362)**	**(18,956)**	**(18,961)**	**(19,043)**	**(117,090)**
Commonwealth-funded expenditures	(13,368)	(14,047)	(14,022)	(14,085)	(14,023)	(14,035)	(83,581)
Federally funded expenditures	(6,708)	(6,646)	(5,339)	(4,871)	(4,938)	(5,007)	(33,509)
Gap/surplus, $M	**1,495**	**440**	**812**	**368**	**591**	**681**	**4,387**
Contractual debt service payments[2], $M	(1,798)	(1,742)	(1,767)	(1,782)	(1,692)	(1,697)	(10,477)
Net gap / surplus, $M	**(303)**	**(1,302)**	**(955)**	**(1,414)**	**(1,101)**	**(1,016)**	**(6,090)**
Surplus potentially not available[3], $M	*77*	*85*	*170*	*168*	*173*	*172*	*844*

1 Revenues and expenditures excluding gross up adjustments
2 Debt service based on prepetition contractual debt obligations. Presented for illustrative purposes only & does not represent anticipated future payments on restructured debt. Includes GO, PBA, CCDA, PRIFA, PFC, ERS, PRIDCO. The 2020 Fiscal Plan does not assume any predetermined outcome of ongoing litigation with respect to GO bonds
3 These surplus amounts are generated by Commonwealth corporations and the Commonwealth's ability to access such surplus amounts could be at risk without further legislative action

EXHIBIT 137: REVENUE BREAKDOWN

Revenue detail post-measures and structural reforms

Fiscal Year Ending June 30, $M	FY2020	FY2021	FY2022	FY2023	FY2024	FY2025	FY20-25
General Fund Revenues:							
Individual Income Taxes	2,014	1,813	2,068	2,050	2,084	2,105	12,133
Corporate Income Taxes	2,247	1,744	1,765	1,751	1,780	1,796	11,083
Non-Resident Withholdings	474	570	583	535	537	539	3,238
Alcoholic Beverages	257	266	264	263	262	262	1,574
Cigarettes	98	96	95	94	93	93	568
Motor Vehicles	338	341	339	336	342	346	2,043
Excises on Off-Shore Shipment Rum	213	214	206	198	199	199	1,230
Other General Fund Revenue	340	342	341	338	343	347	2,051
Subtotal	**5,980**	**5,386**	**5,661**	**5,564**	**5,640**	**5,688**	**33,920**
SUT Collections (excl. 53.65% PSTBA, FAM & CINE)	1,776	1,917	1,892	1,850	1,869	1,874	11,177
Act 154 Collections	1,831	1,691	1,447	1,199	1,199	1,199	8,567
PREPA Loan Repayment	-	-	-	-	-	-	-
General Fund Revenue (pre-measures)	**9,587**	**8,994**	**9,001**	**8,613**	**8,709**	**8,761**	**53,664**
Revenue Measures	232	233	398	450	457	462	2,232
General Fund Revenue (post-measures)[1]	**9,819**	**9,227**	**9,399**	**9,063**	**9,166**	**9,224**	**55,896**
Component Unit Revenue	1,361	1,192	1,305	1,300	1,318	1,331	7,807
Additional SUT (53.65% PSTBA, FAM & CINE)	126	127	127	126	128	129	762
Third party ASES receipts (rebates and municipal contributions)	270	309	415	425	435	445	2,299
Other Tax Revenues	2,330	2,433	2,408	2,379	2,398	2,416	14,364
Other Non-Tax Revenues	-	-	-	-	-	-	-
SRF expense for Commonwealth Agencies	809	1,060	1,049	1,037	1,051	1,059	6,066
Adj. Revenue Post Measures (Excl. Federal Transfers)	**14,716**	**14,348**	**14,703**	**14,328**	**14,496**	**14,604**	**87,195**
Federal Transfers to Central Government	4,240	4,240	4,273	4,306	4,346	4,388	25,793
Federal Transfers - Medicaid	2,456	2,387	1,037	527	546	566	7,519
Federal Transfers to Independent Component Units	159	159	161	162	164	166	971
Revenues Post Measures	**21,571**	**21,133**	**20,174**	**19,324**	**19,552**	**19,724**	**121,477**
Adjustments for revenue gross up	727	716	705	699	704	708	4,260
Revenue Post measures and post revenue gross up	**22,298**	**21,850**	**20,879**	**20,023**	**20,256**	**20,432**	**125,737**

1 Includes ~$4M annual non-general fund revenue measures attributable to PRTC

EXHIBIT 138: SUMMARY OF BASELINE EXPENDITURES AND MEASURES

Expense detail post-measures and structural reforms

Fiscal Year Ending June 30, $M	FY2020	FY2021	FY2022	FY2023	FY2024	FY2025	FY2020-25
Expenses							
General Fund Expenditures:							
Direct Payroll	(2,935)	(2,949)	(2,980)	(3,009)	(3,041)	(3,076)	(17,990)
Non-Personnel Operating Expenses	(1,697)	(1,711)	(1,723)	(1,745)	(1,773)	(1,794)	(10,443)
Municipal Expenses	(220)	(220)	(220)	(220)	(220)	(220)	(1,318)
Pension Expenses	(2,284)	(2,332)	(2,314)	(2,311)	(2,309)	(2,301)	(13,852)
Disaster Recovery Cost Match	(181)	(213)	(187)	(153)	(139)	(139)	(1,013)
Restructuring / Title III Costs	(217)	(162)	(109)	(89)	(42)	-	(619)
UPR Appropriation and Other GF Expenses	(1,099)	(1,224)	(1,162)	(1,121)	(1,055)	(1,056)	(6,716)
Total General Fund Expenses (excl. inter gov transfers)	**(8,632)**	**(8,811)**	**(8,695)**	**(8,648)**	**(8,580)**	**(8,585)**	**(51,951)**
Medicaid - commonwealth funded	(87)	(287)	(1,586)	(2,165)	(2,259)	(2,359)	(8,743)
Social Programs - commonwealth funded	(15)	(15)	(15)	(15)	(15)	(15)	(91)
Total General Fund Expenses (excl. inter gov transfers)	**(8,734)**	**(9,113)**	**(10,296)**	**(10,828)**	**(10,854)**	**(10,959)**	**(60,785)**
Federal Funds, SRF, and CU operating expenses:							
Direct Payroll	(1,329)	(1,321)	(1,335)	(1,347)	(1,362)	(1,378)	(8,072)
Non-Personnel Operating Expenses	(1,924)	(1,827)	(1,799)	(1,818)	(1,843)	(1,869)	(11,080)
SRF expenses for Commonwealth Agencies	(736)	(857)	(905)	(894)	(906)	(914)	(5,212)
Medicaid - federally funded	(2,456)	(2,387)	(1,037)	(527)	(546)	(566)	(7,519)
Medicaid - SRF	(270)	(309)	(415)	(425)	(435)	(445)	(2,299)
Social Programs - federally funded	(2,730)	(2,734)	(2,761)	(2,788)	(2,819)	(2,850)	(16,682)
Total CW Funded Op. Exp.	**(18,179)**	**(18,548)**	**(18,549)**	**(18,627)**	**(18,765)**	**(18,981)**	**(111,648)**
Expense Measures	(50)	(127)	1,132	1,594	1,748	1,905	6,202
Total CW Funded Op. Exp. Post Measures excl. Loss of Medicaid Funding	**(18,229)**	**(18,675)**	**(17,417)**	**(17,032)**	**(17,016)**	**(17,076)**	**(105,446)**
Adjustment for expenditure gross up	(727)	(716)	(705)	(699)	(704)	(708)	(4,260)
Net Operating Surplus/(Deficit)	**3,341**	**2,458**	**2,757**	**2,291**	**2,535**	**2,648**	**16,031**
Capex and Other Expenses:							
Maintenance Capex	(382)	(308)	(367)	(370)	(375)	(379)	(2,181)
Enterprise funds	(1,186)	(1,190)	(1,202)	(1,215)	(1,228)	(1,244)	(7,265)
Disbursements of Tax Revenues to Entities Outside Plan	(512)	(399)	(366)	(330)	(334)	(338)	(2,278)
Other Non-Recurring	234	(122)	(10)	(9)	(7)	(6)	80
Total Capex and Other Expenses	**(1,847)**	**(2,018)**	**(1,945)**	**(1,923)**	**(1,945)**	**(1,967)**	**(11,644)**
Surplus Post Measures (excl. Debt Payments)	**1,495**	**440**	**812**	**368**	**591**	**681**	**4,387**
Contractual Debt Service Payments[1]	(1,798)	(1,742)	(1,767)	(1,782)	(1,692)	(1,697)	(10,477)
Surplus after Measures and Debt Payments	**(303)**	**(1,302)**	**(955)**	**(1,414)**	**(1,101)**	**(1,016)**	**(6,090)**
Surplus potentially not available[2], $M	*77*	*85*	*170*	*168*	*173*	*172*	*844*

1 Debt service based on prepetition contractual debt obligations. Presented for illustrative purposes only and does not represent anticipated future payments on restructured debt.
2 These surplus amounts are generated by Commonwealth corporations and the Commonwealth's ability to access such surplus amounts could be at risk without further legislative action.

Chapter 25. Fiscal measures

25.1 Agency efficiencies

Exhibit 139 details the payroll and non-payroll savings for each of the agency groupings. Agency groupings are as shown below in *Exhibit 140*.

EXHIBIT 139: MEASURES SUMMARY IMPACT FOR ALL AGENCY GROUPINGS [291]

Run-rate savings from agency efficiency measures[1], $K

	FY2020	FY2021	FY2022	FY2023	FY2024	FY2025
Education	336,854	330,682	433,237	458,275	495,397	524,656
Courts and Legislature	84,540	75,614	90,906	97,225	98,325	99,514
Health	104,341	90,611	133,493	144,002	145,632	147,392
Public Safety	141,371	141,078	162,334	178,920	180,945	183,132
Corrections	96,348	54,837	101,627	105,942	107,141	108,436
OCFO - Treasury	26,966	81,606	92,916	95,608	96,690	97,859
Public Works	37,260	38,671	65,951	68,071	68,842	69,674
State Insurance Fund Corporation	61,700	59,433	78,511	81,291	82,212	83,206
Economic Development	26,770	58,347	55,459	56,638	57,279	57,972
Executive Office	16,973	9,790	19,602	21,440	21,683	21,945
Independent Agencies	25,085	6,348	26,136	27,706	28,019	28,358
Environmental	15,034	10,535	18,674	19,642	19,864	20,105
Families & Children	21,108	20,652	49,821	55,642	56,272	56,952
Housing	26,798	18,272	23,404	25,358	25,646	25,956
Automobile Accident Compensation Administration	16,051	13,188	19,246	19,978	20,204	20,448
Labor	13,473	11,871	18,221	19,309	19,527	19,763
FOMB	10,971	17,375	17,447	17,502	17,700	17,914
Agriculture	26,662	24,992	29,860	30,345	30,689	31,060
Justice	14,619	13,888	18,393	21,320	21,561	21,822
Culture	5,407	4,665	6,833	7,088	7,168	7,255
Closures	3,377	10,393	15,748	16,075	16,257	16,454
Finance Commission	3,513	2,963	4,197	4,349	4,398	4,452
Retirement Services	26,656	2,900	3,011	3,154	3,189	3,228
Land	2,894	1,740	4,021	4,158	4,205	4,256
State	11,203	2,025	3,345	3,441	3,480	3,522
Utilities Commission	3,239	1,531	3,115	3,281	3,318	3,358
Transparency & Control Entities	995	564	1,009	1,018	1,030	1,042
Ombudsman	1,692	1,565	2,338	2,462	2,490	2,520
Universities	1,651	1,355	1,955	2,121	2,146	2,171
Institute of Statistics	483	375	537	550	557	563
Custody Acct.	110,841	48,230	66,753	67,498	68,262	69,087
Public Service Commission	-	-	-	-	-	-
Total run-rate savings from agency efficiency measures	1,274,875	1,156,096	1,568,100	1,659,409	1,710,130	1,754,071

1 Excluding investments and other funding increases

291 Excluding investments and other funding increases.